CHINESE CURRENCY AND BANKING

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By

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PREFACE.

This volume is but a sequel to my "Finance in China." In that book I tried to give a bird's-eye view of the whole situation of trade and economics in the country. Owing to the number of subjects that had to be dealt with, the treatment was necessarily brief. The situation in China at the moment is full of interesting possibilities. Reform is in the air, and the necessity for it is being felt more keenly than at any past time. No one interested in this country, in any manner, can escape at least the thought of some scheme, or schemes, tending towards the reformation of China's government and finances.

Having given a summary of the financial and economic situation, past and present, it is but a step further to attempt to formulate plans for the future. I have, therefore, endeavoured to sketch some suggestions for reform in this, and the two succeeding volumes on "Taxation in China" and "Industries and Agriculture in China." At the beginning, I believed that I laid my plans on too large a scale, by arranging to treat the whole subject in two volumes. The scope widened as the work progressed, and I found myself confronted with the necessity, of writing, not two volumes, but four.

In the body of the book, I have given my reasons for beginning with Currency and Banking. Even on these subjects, the amount of information available to the average man has been very meagre; hence, I was obliged to go more into detail, than I should have wished, concerning the past, in order to enable my readers to grasp thoroughly my scheme

for reform. Especially on Banking, it has been a case of pioneer work, because no one, so far as I can trace, has ever attempted to write comprehensively on that subject.

I do not give out my scheme as the ideal, or as satisfying every requirement of reform. But I believe that it is the most suitable in the present circumstances in this country.

My best thanks are due to Sir Everard Fraser, K.C.M.G., for going through the MSS., and for the several valuable suggestions that I have embodied in the book.

S. R. WAGEL.

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Chapter I.

INTRODUCTION

The fundamental defect of all schemes so far proposed for the reformation of Chinese finance is that, while many of them are quite good in their own way, they are woefully lacking in the correct perspective of affairs. It is not generally understood that reform in one branch of the body politic is impossible and impracticable without at least a modicum of change in the rest. The affairs of a government offer a very close resemblance to the well-being of the human body. It is impossible to have one limb absolutely healthy while another is diseased. While it is practicable and even necessary to attend to the sore in that part of the human anatomy, it is sheer folly to suggest that the cure of the ills of one portion of the body could be attended to without reference to the others. The organization of a government is quite similar. If the police is corrupt such corruption makes its effect felt on the administration of justice; that again reacts on the confidence of the public in the government as a whole. The good or bad effects of the condition of one organ of the body politic travels like the vibration of a sounding-body when it comes in contact with a foreign material.

Many men of wide experience, and no doubt thoroughly capable of grappling with schemes of reform, have made several proposals with regard to the amelioration of the condition of the government in this country. The schemes, if only they could be worked out, are admirable; but, as it is well nigh impossible to effect such reforms in

the manner proposed by these well-meaning people, the schemes are unfortunately valueless. The proposer of each scheme has his own pet nostrum; and like a quack doctor proclaims that his cure is the most effective and capable of ridding the country of all the ills it is suffering from. One scheme is to adopt a gold standard which, it is stated, will prove the regeneration of China. Another is to prevent the Native Banks issuing drafts or orders. A third proposes a capitation tax; and it is stated that with a population of 400,000,000, and each individual paying as small a sum as half a tael, this tax would yield enough revenue to make this country independent of all foreign help. The fourth proposal is to levy an almost prohibitive duty on all imported goods; it is averred that by such means the Customs Revenue could easily be increased from Tls. 43,000,000 which was the revenue of 1913 to Tls. 100,000,000. The fifth scheme is to tax land according to its full yield of crops and a revenue of about Tls. 300,000,000 a year is promised; even such a level-headed administrator as Sir Robert Hart succumbed to the spell of this proposal. The sixth is to make the public pay through the nose for its salt, and one benevolent man expects to obtain Tls. 80,000,000 out of this source. The seventh scheme is to sell concessions to foreigners and make the latter pay large sums that would, it is stated, help to relieve the financial embarrassment of the Government.

The schemes stated above are entirely for financial reform. There have been besides numerous proposals for the reformation of the administration of justice and the police and the raising of the standard of officialdom in this country. Like the rest, these proposals are far from constructive. What China lacks

at the present time is a sufficient number of constructive statesmen—men who are not visionary and will take into consideration the conditions prevailing at the moment, and judge how far a proposed change would fit in with existing realities of the situation. To reform a criminal is a very laudable object, and such an effort would certainly prove of great help to society; to make a decent citizen out of the criminal is also not an impossibility. But the careful statesman would study his subject first and judge how far and in what manner he could proceed, even though he might be certain that his endeavours would meet with success. In the same manner, to reform a corrupt government is not only possible but feasible; but it would be sheer folly to issue a proclamation that from thenceforth no officials should take bribes, that all officials should work solely in the interest of the people, and with the government, on utilitarian lines. It is well known that several kinds of dollars, cashes and notes are in circulation, the multitude of which is, to say the least, a nuisance; if all these monies could be replaced by a single or uniform currency it would prove of great advantage to the administration and trade. The government ought to remedy the situation and no doubt is endeavouring to do so; but if the Government were to issue a proclamation that only one kind of tael or dollar should be accepted, and that the dollar should be only worth a hundred cents—no more and no less, it would result in a series of riots all over the country and the people as a whole would do everything in their power to prevent the objects of such a regulation. It is axiomatic that with every ill of the body politic there is built up a certain amount of interest—however contrary to the well-being of

the public such may be. The disturbance of such interests, if adequate safeguards are not taken, is productive of more evil to the body politic than when they are allowed to exist. It is the duty of the statesmen to see that the equilibrium of the state is preserved before putting into effect any proposal for the cure of the ills of the body politic. So far, it could be confidently stated that no scheme has been put forward, which is either thorough or capable of securing the best results with as little dislocation of the machinery of the government as possible.

No scheme of reform would prove beneficial or successful unless it is comprehensive. The best laid plans for the reform of currency would go to naught if native banking remains what it is to-day. The most feasible plan for the reform of currency and banking would be of no avail if the regulation of taxation remains as haphazard as it has been for a long time, or as it remains to-day. Even if banking, currency and taxation were to be tackled at one and the same time, and a successful solution arrived at, such reform would prove difficult of application when the collection of taxes or regulation of the banks are impeded by want of sufficient communications. Even should there be unprecedented increments in the mileage of railways and communications, little change would result if the sources of revenue remain without much of a change, and the country is stagnating industrially.

The fundamental of all progress and reform is character, individual and national. Whenever any reform is proposed it is assumed, as a matter of course, that the proposal is favoured by the inhabitants of the land and that there would be no shirking of responsibility,

however much foreign advisers might be employed to help. Human nature being what it is, it means, of course, a proper state of laws and the infliction of penalties for infringing them. European countries, or others that have come under the influences of Western civilization, are not, with all their legislation, able to prevent individuals from giving way to temptation; moreover, the officials in civilized or quasi-civilized countries have to reckon with public opinion and the press, which constitute very powerful agencies to keep public men in the straight path. With few exceptions, the average man is not honest or straightforward because he sets up a certain standard and follows it, although, no doubt, education, public opinion, and environments have created a high standard which is now being adopted by a large number of people. The average man is straightforward because he fears the penalties following on the infringment of the laws of the land. In the present state of industrial advance, with the increase of individual affluence, the temptations are far too great for common nature not to succumb to them—if the penalties are not sufficiently deterrent. I emphasize this general observation because it has become the fashion among European writers to judge the Chinese as a race rather harshly. It is very doubtful if the modern civilized nations of Europe would be any more moral than Chinese to-day, if they had to live under conditions which the Chinese have to submit to, with practically no laws to govern commerce or individual business, and with no control of any kind on the part of the people in administration or taxation. It is very common to speak of the "squeeze" of the officials; but what could any official do if he had to spend ten times his salary to

keep up his position? The head of a district is usually paid about Tls. 200 a month; on that salary he has not only to feed and clothe himself and his family, but has also to keep a miniature court and pay the salaries of scores of minor officials, runners, tax collectors, village magistrates, etc. The line of demarcation between honesty and dishonesty in public life is not usually distinguishable; it depends very much on conditions; in circumstances in which the Chinese have found themselves, it might confidently be asserted that there has been far less dishonesty among officials or merchants than would have been the case if similar conditions prevailed in any other country in the world. The Chinese merchant is as straightforward as his compeers in any other country. If there are defaulters or men who repudiate, the proportion of such is not much larger than in other civilized countries; and in view of the fact that there are no laws governing commerce and no control over them except such as they have voluntarily submitted to, the Chinese merchants certainly follow a higher plane of ethical conduct than that with which they are generally credited. The administration of the country, on the other hand, has not done its duty to the individual. It is not a fair proceeding to place temptation in the path of the individual, leaving no rule of conduct except an ethical standard, and convict him of dishonesty when he swerves even to the slightest extent. It is therefore of extreme importance that the civil and commercial laws of China should be brought up to the level of those of other countries; only when the laws covering the individual conduct are properly regulated would any reform prove successful.

This point is beyond the scope of my work

and my object in referring to this subject is simply to show that the human element should be carefully attended to. Although my proposal relates to the finance and economics of this country I have to make a brief reference to other necessary reforms. In my work "Finance In China" I have given a bird's-eye view of the economic situation as it is to-day, with brief references to the past. I have explained enough to show that the present position was not brought about deliberately by the government or the people; and the foreigners having political and commercial relations with this country have also not been solely responsible for it. A conspiracy of circumstances has brought about a result which is now very much deplored. When the Chinese placed obstructions in the path of commerce or when the budgets were cooked in order to show prosperity, the authorities had really no intention of committing a venal act; when the Powers sometimes acted in a manner which appeared to be unfair, they certainly as a rule have had no intention of acting against the interests of the country. It is fruitless to go in detail into the motives of the several acts of China and the Powers that have brought about an unsatisfactory economic situation. In my book "Finance In China" I have detailed several incidents that have led up to the present state of affairs. I now propose to find remedies for the ills of the body politic.

To sum up briefly the resultant situation is as follows: China is loaded with a huge debt, partly through her own fault; but it would be a flea-bite if only the resources were fully developed, either on her own initiative or with the aid of foreigners. The country is sadly lacking in communications; about 5,000 miles of

railways are open and the total mileage including the projected lines is only about 12,000. China with her dependencies has an area of 3,300,000 square miles; India with less than half the area has over 35,000 miles of railroads in operation, besides a number of projected lines. I do not wish to compare China with any European country in this respect, for the conditions of wealth, trade and industry in these countries are so different as not to permit of any parallel to China. Throughout the length and breadth of the land there are no roads in the real sense of the word.

Even in countries like England, Germany or the United States which have a complicated network of railways, which connect every port with the inland cities and such cities again with small towns—and in many cases even villages—roads are numerous; new roadways are being constructed every day, and all of them are being carefully attended to. The prosperity of a country depends entirely upon the volume of its trade, both internal and external, and such trade becomes practically impossible but for a large network of roadways. In ancient times each village was self-contained, producing within its own confines all the necessaries of the population; the proportion of the population that indulged in luxuries was very small; there was a sharp line of demarcation between the rich and the poor; the rich people were naturally able to pay heavy prices for the luxuries which in most cases had to be transported through long distances. In contrast to the position to-day when the difference in the cost of transport, as between luxuries and necessaries, is extraordinarily small, the cost of luxuries in the olden times was unusually heavy, mainly

because of the transport charges. It is an interesting fact that even only a hundred years ago, an article which was considered a luxury in London and for which high prices were paid in the market, was no more costly than many of the articles which constituted necessaries in Dresden—where such an article was manufactured. In modern times the venue has altogether changed, owing to the easy means of communications and the relatively small cost of transporting the article; some articles manufactured in France are just as much a luxury there, as in the Argentine or China. But the volume of the trade of the world is in necessaries; the bulk of the trade of practically every great industrial and agricultural country is either in raw produce like wheat, maize, cotton or oats or slightly manufactured articles like sugar, tin plates, wrought-iron, or cheap cotton goods. These goods take up a large amount of space and hence transport means practically everything in this trade. You may have fields producing as much as a hundred bushels per acre in some part of Mongolia far away from all means of cheap communication. From the point of view of the trade of the world this production is of no value whatsoever, simply because the value of an article is, properly speaking, the marketable value. No commodity, not even gold, has an intrinsic value. The value of gold will depend entirely on the amount of commodities it is able to buy. It is true, no doubt, that a sovereign is a sovereign, no more no less; but as we have seen during this European war the same sovereign worth the same 20 shillings was, in many cases, only able to buy goods which could be purchased for 10 shillings in normal times. Just as the

value of money in the shape of commodities varies according to circumstances, the value of commodities in the shape of money also varies. The purpose of a country which wants to increase its trade is not only to get the highest value for its commodities, but also to sell as much of it as possible. Such an object is attainable only when there is proper means of communication in the land. If the cost of transport is heavy owing to bad roads and lack of railways, then the holder of the produce or manufactured articles would not be able to sell his goods cheaply. In these days when there is heavy competition in almost every branch of commerce, countries which have advantages of good roads and railways take away the trade from those that have neither of these. The result will be that as a consequence of such competition, the volume of trade of the country which has not the advantage of good roads or railways would be considerably reduced. China to-day is suffering from the lack of proper roads and sufficient mileage of railways.

Besides roads and railways, waterways constitute an important means of transport within the country. At one time China had a network of canals, facilitating thus the internal trade; to-day many of these are silted up and the few that are tolerably fit are navigable only for the most shallow of boats—and only for a short season in the year. If only the canals and small rivers that connect the inland towns with the ports of the sea board had been properly taken care of, the volume of Chinese trade might have been considerably more than the total of to-day. Therefore any scheme of general reform in this country should pay attention to the development of

communications, both by land and water. There has been a commendable activity with regard to railway building, especially during the past two years—although, however, it is too early to count upon the success of all the concessions that have been granted for railway building. But as regards communication by waterways, practically nothing has been done. This is a work which Chinese will have to do themselves with, possibly, a little of foreign engineering help.

Agricultural production and a large volume of trade are possible only when there are sufficient aids to cultivation. For hundreds of years the Chinese farmer has had no help at all; when there was a drought he left his crops to wither under the scorching rays of the sun with a mute and unavailing appeal to the heavens; when there were heavy rains or floods the harvest was washed away without any possible chance of help. In other civilized countries the governments have been able to do a great deal to prevent such visitations, although it is understood that it is beyond human power to do away with such altogether. In China, peculiar political and economic causes make the Government helpless so far as relieving distress of this kind is concerned.

The main system of farming out revenues which is being followed even under the republican regime is not calculated to make the Government take any permanent interest in the welfare of the cultivators. So long as each official from the Viceroy, or Tutuh under the new regime, down to the Hsien or village official, is bent upon obtaining as much revenue as possible, and remitting as little as possible to his superiors, there is neither care nor inclination to endeavour to attain the welfare

of the cultivator. Apart from the faults of the Government, the social and economic conditions are also against any particular attention being devoted to public welfare. Land has been divided and sub-divided from father to son in this country from time immemorial; the farmer as a rule has very little resources with which to improve his land; and drought or famine for a single season cripples his resources so absolutely as to leave him helpless. It is, of course, out of the question to expect the Chinese farmer to use modern implements and modern methods of agriculture by means of which he would be able to increase the harvest. The farmer in this country is as a rule too poor to do anything of the kind. When it is remembered that the average holding is less than five acres per head of a family, it may easily be seen how futile it would be to attempt any modern methods. The latest models of agricultural implements in use in Europe, and principally in America, are useless for holdings of less than a hundred acres. The cost is also prohibitive, from the Chinese point of view. A steam plough or a steam thresher of the smallest conceivable size that could be used in the fields costs as much as the total value of at least ten average holdings in this country. A further impediment to agricultural prosperity in this country is the unfortunate tendency of the people to destroy all natural aids to cultivation. It is not averred that such destruction is wanton or that it is not due to the driving forces of the grinding poverty and other unfortunate circumstances. For hundreds of years the people have been accustomed to destroy all the timber they could lay hold of, simply because they had to keep warm in the winter with as little expenditure

on the score of heating as possible. Year after year the country has been denuded of its trees; and where the populace could find no trees they even laid hold of the shrubs and dried twigs to such an extent that in parts of China one sees square miles of territory without any greens worth speaking of—especially during winter. If the consequence was only a dearth of fuel supply it would be bad enough; but it had a very direct effect on agriculture. It may be generally known that forests and trees are very essential to cultivation. Forests hold the water that comes down in the shape of rain for quite a long period; the moisture once evaporated descends in the shape of rain to the benefit of the fields under cultivation. The presence of trees in large numbers is also extremely beneficial to agriculture. Where there are no trees the land is not so fertile as in places where there are trees. Again, the roots absorb a good deal of the moisture and water above the soil. Thus the denudation of trees in China is responsible for the smallest rain collecting itself into a flood and devastating large areas of cultivated fields. In the absence of forests to hold the water, and of roots of trees to hold the moisture of rain, the water flows along, causing destruction in its wake. Such devastation caused by want of trees is not the only evil that afflicts the farmer in this country. The denudation of trees also furnishes the reason for extensive periods of droughts, and also the frequent recurrence of them. For a certain area to have the benefits of rains it is necessary that the neighbouring area should have enough moisture to evaporate and form into clouds. It is the experience of the world that the only means of obtaining rains useful for cultivation is by preservation

of trees and forests. It has been shown that such a situation could be remedied by artificial means. Forest preservation as also re-afforestation have been successfully attempted in India; and any scheme of reform proposed for the reorganization of Chinese affairs should not lose sight of this aid to agriculture.

Another important reform is that relating to irrigation and conservancy. For centuries this country has been suffering from the wayward courses of its rivers. The Yellow River, which is aptly known as China's sorrow, has changed its course at least a dozen times during the past 300 years and even to-day the farmer who holds land anywhere near its course is not sure at what moment he will be thoroughly pauperised. Almost every year this river floods thousands of square miles and brings devastation to the homes of hundreds of thousands. Modern advancement has shown that a river like this could be controlled and the volume of water flowing through the river could be utilized to bring plenty and prosperity instead of ruin and devastation as at present.

The regulation of industry needs also quite as much attention as agriculture and aids to it. China has raw materials of all kinds in abundance; it has extremely cheap labour and a market that is capable of very large expansion. Under the existing conditions in other parts of the world, it is almost impossible to conceive of China as a manufacturing country competing with England, Germany or the United States. But there is certainly no reason why the ambition of the Chinese of becoming a manufacturing nation and supplying their own markets with the outputs of the factories in Shanghai, Canton or Hankow should not be fulfilled. But there are many

obstacles in the path of progress in this respect. The Chinese are handicapped in the want of capital, brains, initative, training and want of sufficient help from the Government. Up till recently they had the additional disability of having to cope with the obstructive tactics of the Government which, in the mistaken idea of putting down foreign influence, was opposed to the industrial advances with the aid of foreign capital, men, or machinery. A further handicap to industry is the attitude of the foreign nations trading with this country. While Germany, France, Japan or the United States are intensely protectionist, and tax heavily all imports of foreign manufactures, they would by no means allow China to do so; and this country is to obtain the unanimous approval of all the countries having diplomatic relations with her before she could raise taxation on foreign trade even by a cent. At present the trade is all one-sided and this country is becoming the dumping ground for the surplus production of the manufactories in all parts of the world—even in commodities that do not need any skill in the process of its manufacture. So long as China is kept up as a dumping ground it is simply impossible that new industries could be successfully started or maintained.

Nor has the finance of the Government contributed any help towards instituting the needed reforms. With the perpetual antagonism between the central and provincial governments, with the want of system and control throughout officialdom, the Government treasury does not receive even a moiety of the taxes paid by the people. The system under which the Government has been worked in this country for the past three or four centuries

has led to a growth of an unexampled measure of peculation—inevitable in such circumstances. Such a situation has also reacted on the capacity of the revenue. Year after year the total collectable revenue got reduced so much so that in spite of all the "squeeze" the taxpayers hardly pay even as much as they paid half a century ago, i.e., during the closing years of the Manchu regime. With everything at a standstill it was futile to expect revenue to improve; as a matter of fact the contrary situation has eventuated. And to crown all, special circumstances prevailing in China helped the growth of innumerable currencies, circulating in every province and dependency of this country—the existence of which has given rise to still further complications.

Chapter II.

FINANCE AND MONEY

As one of the first premiers of the Republic said, finance in this country is an all-important and an all-absorbing subject, overshadowing everything else. Even in countries which have a well organized and well regulated machinery of government, finance attracts the largest part of the time and attention of the legislators. In England, for instance, where the whole fabric of the government, especially in details, runs with clock-like precision, the average tax payer does not grasp clearly the real significance of finance to the government. Just as no individual could live as a member of society without money, just as not a stroke of work could be done if workmen had no wages, and just as no movement or activity in trade would be possible if there were no sufficiency of funds, so no government of even the most rudimentary type could exist for a day if it had not the assurance of the receipt of the necessary funds. The judges who sit on the bench to adjudicate differences between individual citizens, civil or criminal, would only continue to work if they are paid their salary. The policeman whose duty is to prevent crime, detect it when committed, and bring delinquents before the established tribunal, has to live; he and his dependents live on the emoluments that he receives from the government for functioning as an official. Law and order is preserved in the city by the police; in the country by the police as also by the military; and peace

among nations is only maintained by the existence of large land and naval forces. To preserve peace, therefore, both within and without, a government has to spend large sums to maintain forces. No public service could be efficient unless the individuals composing it are well educated. Individual effort in this direction does not always bring about the best of results; hence the state has to spend large sums of money to educate the public. The more a nation becomes civilized, the more intricate and vast become the problems of the government; the latter has to incur a very large expenditure and hence has to find the needed money.

The supreme support of the authority of a government is force to enforce justice, and such force entails the expenditure of large sums. It has been the unfailing experience of nations that so long as the constituted authority is able to expend the sum necessary for making its power felt, the state is on sure foundations. Even a judgment of a court of justice is powerful and submitted to by the public, simply because the latter know that if the judgement should be disobeyed it would be enforced by the whole power of the state, both civil and military. The moment the nation finds itself unable to meet the expenses necessary of maintaining its power, anarchy supervenes.

In other words, in order to exercise authority a state must have revenue, and in order to be able to collect revenue a state must have sufficient physical and moral forces to compel recalcitrant individuals to pay their quota of taxes to the state. This is more or less an argument in a vicious circle; but for sufficient education and enough police and military it would not be possible to collect the

necessary taxes and maintain a state; but for the collection of sufficient money in the shape of taxes a state could not maintain a proper civil and military organization, as also educate people to respect the laws of the state. Under the conditions of modern civilization the expenditure of a state increases with the progress of years. Under an ideal government expenditure would be so regulated as to be always productive; that is, the sums expended would be devoted towards ameliorating the condition of the poor and facilitating the increase of wealth to the rich, so that by such means the state also benefits eventually. If a government is able to devise means by which the individuals composing it, with or without the aid of foreign help or capital, are able to develop the mineral resources of the country, not only would such individuals benefit but also the state by the royalty it would eventually receive out of such production, and the indirect taxes it would be able to levy in connection with the development of such resources. For instance, if a big mine is opened, thousands of labourers congregate near where they have to work, and such a place grows into a small city. The individuals earn their daily, weekly or monthly wages; apart from necessaries of life they are able to have creature comforts, and the more they earn the more they buy. The proprietors of the mines derive benefit out of the labours of these men; their prosperity depends upon their capacity to retain their labour forces, and they spend large sums in several ways in order to make the labour population contented with their lot. The Government benefits by the rise of this industry in four ways; by the royalty it usually receives on the production, by the

income tax it levies upon wage earners receiving annual incomes beyond a certain amount, by the taxes which the production will have to pay in transit, and, lastly, by the customs and other duties on the goods brought by the large number of people who are engaged in developing the industry. Or, let us take another instance where a government undertakes a project of irrigation; the result of such an effort is that large areas of fallow lands are brought under cultivation; not only does the government derive benefit from the selling of water to the land but also from the annual taxation of areas which did not contribute anything in the way of taxation until the project of irrigation was completed. With the progress of time the cultivators of the new areas become prosperous; they buy and sell other commodities and produce, besides the outputs of the land; every such activity gives additional revenue to the government. Thus, in a normal state the prosperity of the individual as well as that of the state by which he is governed—whatever the nature of the government may be—are bound together. It is impossible for a state to continue to be prosperous while the individuals composing it are poor and harassed. There have, however, been instances of rapacious governments continuing to accumulate large reserves and possessing accumulations of wealth, while the people have been miserable and ground down by severe taxation. Such a state of affairs can hardly last any length of time. Even in China, some Emperors under different dynasties are known to have been possessed of fabulous wealth while the people were groaning under the heavy burden of taxation. But on each occasion such a state of affairs was always

followed by some sort of a catastrophe by means of which the corrupt state, official or emperor, lost the wealth, and the people made up for years of excessive taxation by not paying anything in the way of taxation for a long while. In the ideal state not only are the individuals and the government equally prosperous, but the burden among individuals is evenly distributed. In actual practice, however, the burden falls on some section or other of the public more heavily than on others. But injustice resulting from such a situation is very much mitigated by the fact that from time to time the burden of taxation is being shifted from one shoulder to the other; a proper study of the progress of taxation in any country will show that during the course of a century the burden usually becomes more or less even.

We have been accustomed to speak of the government receiving taxation in money, man making profit in business in money, or an agriculturer selling his produce for a certain amount. By common custom and mainly because such is inevitable, each locality has come to think of money in a certain denomination. The moment you speak of money to an Englishman it conjures in his mind the idea of a sovereign, a shilling, or a penny. The moment you speak of money to a Frenchman he thinks of nothing else but francs and centimes, as also divisibles and multiples of it. The German always thinks of marks and pfennigs whenever any mention of money is made. It is inevitable, therefore, that a group of people living in a limited area, speaking a common language, having certain common features of government, civilization and trade, should agree to have a certain unit as money,—such an

agreement receiving always, as a matter of course, legislative sanction by the government. Therefore, when a transaction takes place between two Germans it follows naturally that one should sell and the other should buy for marks and marks alone. Under such a state of affairs each country will have its own unit, and currency would not have grown to be a problem at all. Even only two hundred years ago the external trade of the country was almost negligible, even for England and France; the internal trade also was very limited, the transport of cargo proving difficult on account of want of cheap and easy communications. But progress of time and the advance in material civilization have brought about a state of affairs in which the external trade of the country—especially such as has come under the spell of aggressive industrialism—is of far more importance to it than its internal trade. Each country competes with its neighbour to increase its external trade as much as possible, as also to sell much more than it buys. With rare exceptions, it has become the common rule that the country should place as many obstacles in the path of another as possible when the latter wants to sell its goods to the former, but facilitate transactions when the latter wants to buy its goods. England alone is an exception to this rule for this reason; industry in England has been out of its swaddling clothes for a long time and manufacturers welcome competition rather than otherwise; also Great Britain depends almost altogether on foreign countries for the supply of raw materials for its manufactories as also for its food—the local production of raw materials for manufacture and food being extremely small.

Modern conditions have thus necessitated extensive business relations between countries having different kinds of government, industries, manners and customs, and, above all, money. It would be purposeless on my part to go in detail into the various theories of the meaning and value of money, especially as one could easily obtain sufficient and valuable information from several standard works. My purpose is to state the position of currency in China, and I will confine myself to such general observations as are necessary to help my readers towards a correct comprehension of the past, present and future of the currency of this country. It is axiomatic that money has no intrinsic value. Gold, silver, or copper have only such values as are given to them by convention, as also legislative enactment. The governments of the world have their currency in these metals, as also in paper, for the convenience of administration as also that of the business of the public. Trade transactions are intended to maintain or add to the comforts of the individuals composing a state or city. Primary wants and the ones that have to be compulsorily attended to are those relating to our food stuffs. Secondary ones are those relating to our luxuries. It is but natural, therefore, that the greater part of the volume of the world's commerce should be in the food stuffs and other primary necessaries of life. As under the ideal or primitive conditions of life, every person is supposed to be actually engaged in some pursuit or other, such pursuits should therefore be towards satisfying their wants.

Even under the nomadic stage of life there is a certain amount of division of labour; a few individuals composing the tribe have to go hunting for food; a few have to guard the

camp and women and children; a few have to march afield in order to prospect and find out the lay of the land; while the women have to prepare the food for the men. In the next stage, when the life is regulated by the village communities, division of labour becomes more marked and individual. When once a settlement is made in a village the food is not always obtainable by hunting; the cultivation of the land become an essential of life; within the confines of the village each one produces the necessaries of life. Supposing the village contained a hundred inhabitants, of whom twenty-five were landholders and heads of families; it is not advantageous for any one of the twenty-five that each should raise everything that is necessary for his home in his own farm; consequently four of them raise all the wheat that is necessary for the whole village, another four look after the necessary live-stock, and each one of the rest devotes his attention to such affairs as would prove beneficial to the village community. The man who raises wheat distributes wheat to the whole village, the man who raises live-stock supplies meat to the whole village, the man who spins and weaves supplies cloth to the whole village. Although this arrangement is for the communal benefit it is also pure business. The position is thus; the man who has wheat sets apart a certain portion for the use of himself and his family; the rest he exchanges for meat, cloth and other necessaries of life. The man who has cattle keeps a certain portion needed as meat for himself and family; the rest he exchanges for wheat and other necessary supplies. In this stage of communal life there is not the slightest need of money in any shape or form. When, however, society develops to such a state that

very large numbers of people congregate in one place, the need for money becomes apparent. When this state of affairs comes to pass the division of labour becomes more marked; also the wants of the individuals are larger. If near a certain settlement the land be suited to the growing of wheat and nothing else the people find it to their advantage to grow only wheat; but as they could not live altogether on wheat, they take their surplus production of wheat to the next town or village and exchange it for other necessaries. But with the development of society it is not improbably the case that the neighbouring village to which the surplus wheat is transported may have also a surplus of wheat; so the village producing only wheat has to go to another village or number of villages to buy the necessaries—or any commodities needed even in such primitive state of life, to cater to the creature comforts of the individual. It is at this stage that the usefulness of money becomes apparent. The wheat producing village would prefer to carry something very light and portable with which to buy other necessaries of life; the meat producing village is also similarly inclined. Hence the group of villages producing certain articles come to an understanding that they will have as common medium of exchange something which is not quite as perishable, which is comparatively light and whose value fluctuates as little as possible. They also come to a tacit understanding as to the relation between the medium of exchange and the several commodities which they want to buy and sell, on the basis of the average of the exchangeable value of the different commodities during a certain period. Such, therefore, was the origin of money.

Money or the medium of exchange has not always been gold or silver, nor even always metals. Only two hundred years ago in China pieces of silk had the same value as money. About three hundred years ago the red Indians in the United States had skins as money, and gave away equal weights of gold for glass and considered they had made a good bargain with the white settlers. In some parts of Africa even to-day cowries are the medium of exchange and in such places gold has practically no exchangeable value; in this connection I might as well mention that cowries formed the medium of exchange in some parts of China, even as late as the latter half of the eighteenth century.

With further progress in civilization and further accentuation of division of labour the nature, the meaning and the value of what is commonly known as money also changed considerably. When the trade was confined to a circuit of villages, say, within a radius of twenty miles, the use of money was not always imperative or to the best advantage of everybody. If the individual has a small quantity of wheat and is in need of cloth, it is not advantageous to transfer it first into money and then buy the cloth; under normal conditions he could always find a number of people holding cloth who are as much in need of wheat as he is of cloth; in such cases, therefore, it is to the advantage of both parties to engage in direct barter. In the early stages of civilization the use of money is avoided as much as possible and only resorted to when it is absolutely necessary. The reason is obvious.

Money as money had very little value in the early stages of civilization, principally

because, in contrast to the position of to-day, the luxuries that one needed and could command were extremely few. Even when there was inter-village and inter-urban trade this was of very small proportions, because the bulk of whatever business there was was effected through the medium of barter. The next stage was when circumstances induced the people of the village or town to produce more than they could sell. It happened that on many an occasion, through some special fertilizer or effort on the part of individual cultivators, the total quantity of wheat growing in a village was much more than it could use or dispose of. As there was no concerted effort at any period in ancient times, it was out of the question that cultivators could then combine to restrict the output. Consequently the only alternative to over-production—which was not an uncommon occurrence—was to find fresh markets. It was not always possible to procure in exchange for surplus produce the commodity used in that village; the holders of wheat compromised, therefore, by taking some article or other which was a speciality of the new market in which they ventured—the result being that they brought into the village at least one article of luxury. The history of civilization has been that the further the progress the more the increase in luxury. If a village or town was industrious it could produce increased quantities, and as a consequence was able to buy its necessaries as also a great deal of luxuries. Even at this stage the progress made was far short of the normal conditions of to-day. A primitive town or village might have enough produce to buy all the necessaries and also the luxuries that could be thought

of, and still have more left in its hands. It could not keep the produce indefinitely, nor could it trust the neighbouring markets with the produce and take only promises to pay. The situation was then met by the buyers and sellers agreeing upon a certain article as a medium of exchange. That means that where a buyer has not got any product which the seller needs and where the stress of circumstance necessitates the completion of a sale, the buyer gives, in exchange for the produce he takes, some article, that would be able to procure whatever article the seller needs within a certain radius. In other words the buyer gives the seller "money," with which the latter could buy anything that he wants at any time suitable to him.

This explains the oft-repeated statement that money has no intrinsic value. The value of money is gauged by its capacity to buy and its capacity to remain, other things being equal, with as little change as possible. If in a country where, for argument's sake, the economic and industrial condition remains practically without change, a certain quantity of money is able to buy ten bushels on one day and only eight bushels on the next, the inference is that the currency of such country leaves a great deal to be desired. The primary object of having money is to have a fixity of value; and all efforts in the direction of currency reform, ever since mankind began to have money, were directed towards obtaining such fixity. Even as late as only a hundred years ago the success achieved in this direction was absolutely nil. I do not propose to enter into a detailed discussion of the history of currency; but a few general observations as to why the fixity of value in money, which was

admitted to be a good thing in the abstract, was not possible of achievement, may help towards understanding the position in China. Bad as are conditions in China to-day, with its several provincial currencies, the position is not half as bad as France in the early decades of the nineteenth century, or Germany even as late as 1860. The whole area of what now composes the federation of Germanic states is not more than the area of Kiangsu and Anhui put together. Yet while the total of the different currencies prevalent in Kiangsu and Anhui was never more than 30 the Germanic states had over 70 different currencies. The question in China to-day, or in European countries in the past, has always been one of profit not only in the exchange of commodities for commodities but also in that of commodities for money. If the produce is taken from one market to another and if the markets have different currencies the holder of the produce naturally expects to obtain the best value for his commodities and also for the money that he receives. It must also be understood that only fifty years ago in Europe the different markets were practically independent of each other. While wheat may be selling at fifteen shillings a bushel in Dresden the value in Odessa is probably a shilling; in the former place scarcity increases the price abnormally while in the latter place plenty brings down the price. At present transportation is easy and cheap, and it is always the case that if in one place the price of a certain produce is high that market attracts the attention of other markets where the price of the same commodity is cheap. Large quantities are shipped immediately to the place where there is scarcity—the result being the levelling down of prices.

The progress of mankind would have been seriously limited if trade had been confined to barter; as I have shown above, even in the very early stages of civilization, a medium of exchange was found to be necessary. At several periods in the history of the world a number of articles like silk, and metals like iron have served such a purpose—at some periods and in some countries almost simultaneously. Gradually, however, there has been a certain feeling, unanimously in different parts of the world without any consultation whatsoever, that the metals suited for this special purpose are gold and silver. Thus these two metals being used as medium of exchange became by the natural process the standards of value for transactions into which the element of time entered. Although gold and silver have been used as mediums from time immemorial—in spite of the fact that other articles and metals have for a short while, and occasionally, successfully competed with them—they were not always used together in one and the same country. It has been the common occurrence that while gold served as a standard in one country silver was such in another whose boundary was scarcely fifty miles from the capital of the gold-using country. There are however records that the Babylonians, the Assyrians, the Lydians, the Ancient Hindus, the Persians, the Egyptians, the Greeks, and the Romans have had both these metals simultaneously as standards of value. But where these two metals were used as mediums in the same country or in adjoining countries the question of the rate of exchange between the metals became one of great importance. Being mediums or articles which by convention have a certain amount of fixity of value, their use-

fulness would have been considerably curtailed if their relative value was changing from day to day or from hour to hour—as it is happening at present. It is needless to explain that the variation in relative value between gold and silver is so great to-day, because of the fact that in practically every country in the world which has a big trade gold remains the sole standard of value—silver as a consequence being dethroned and relegated to the level of any other commodity like wheat, wool, or iron. Before gold became the standard, for centuries the two metals enjoyed unrestricted and joint supremacy. It was found, however, essential that there should be an agreement as to the ratio at which they were to exchange for each other. Even as early as the era of Menes in Egypt there was a fixed ratio of exchange between gold and silver. Such fixity, however, was only permanent in comparison with the fluctuation in the values of the commodities usually sold in the market. The relative values of gold and silver were changing constantly. There are records of periods in ancient history when silver was more valuable than gold. In the first decades of the nineteenth century gold was thirteen times as valuable as silver, weight for weight; and year after year owing to various causes the value of silver has been depreciating until now gold is worth 45 times as much as silver, weight for weight.

The discoveries in science and the increased output of precious metals also contributed towards bringing about a state in which a proper standard of value became absolutely necessary. To establish a standard there are two essentials; first there must be sufficient supply of what is intended to be the medium

of exchange, and, secondly, there must be sufficient commerce to make it imperative that the people should have a standard. So far as commerce is concerned there has been the gradual increase ever since the dawn of history. Although the subject of the history of the growth of commerce in the world is interesting, my purpose at present is only to deal with the growth of currency. In the very early stages gold and silver were both scarce, and although they remained as standards were used as sparingly as possible. We know of silver mines having been worked in Yunnan in about the tenth century and in many parts of India as early as the eighth century; the total production was however extremely small and counted very little, as a force determining the course of currency. Only in the latter half of the nineteenth century has there been mining of the precious metals on a large scale; and the result has been a great change in the determination of the standard of value. "In the sixteenth century silver was obtained by the Spaniards through plundering and slaughtering the unfortunate natives whose lands they had occupied, with the ostensible aim of spreading the truth of Christianity." * The silver thus obtained was distributed all over Europe first of all in payment of further ambitious projects, and it was not till it reached the Dutch in the usual course of trade that the full effects of the circulation of silver on commerce began to be noticed. "In the nineteenth century, on the other hand, from the outset, commercial influences alone determined the acquisition and distribution of the

* See "The Effects of Great Discoveries of the Precious Metals" by J. Shield Nicholson.

precious metals." * At the close of this period the value of the gold production was 40 per cent. more than that of silver, while even as late as 1869 the values of the production of the two metals were about the same. In the still earlier periods, the production of gold was immensely less than that of silver.

Standards.

For a long period anterior to the reign of Darius the ratio of the value of gold and silver was maintained at 13-1/3 to 1. For a hundred and fifty years after the return of Julius Caesar from Gaul it is known that the ratio was 12½ to 1. In spite of the fact that even in this very early stage of history it was found necessary to fix the relative values of gold and silver, we find the actual currency and the real standard of value to have been only silver. This is due no doubt to the fact that there was very little gold in Europe at the time; but there was not much silver either. Under the Roman Empire there were large stores of these precious metals acquired by conquest and the plunder of vanquished cities—although there was some production from the mines. With the decline and fall of the Roman Empire or what was known as the Empire of the West, Rome was practically denuded of precious metals. When the Turks conquered Constantinople gold was still being coined for a while for very limited amounts.

In England, up to the reign of Henry III there were no gold coins at all. The standard of value was solely silver. "The Kings of England as well as the Sovereigns of most of the states in Europe possessed and exercised

* Ibid.

the right of deciding the rate at which coins of every kind should pass or be, in modern language, legal tender. Under this authority, not only the coins issued in England, but also foreign coins, whether of gold or silver, could, and did, become legal money of the realm." * It was very common in the times of Shakespeare or Chaucer to find practically all the coins of the different countries in Europe circulating in England. Falstaff complained of losing three or four bonds of forty pounds a piece and the Hostess said that "A hundred marks is a long one for a poor lone woman to bear." * * So long as silver was the currency, the value of gold varied according to the demand and the increased or decreased supply of it. The nations altered the relative value of gold and silver coins extremely frequently. Such alteration was principally made for the purpose of attracting one or other of the metals to the country; it happened on many an occasion that England, like the rest of the countries in Europe, was at one time denuded of silver and at another of gold. But with the discovery of America the available quantity of both silver and gold increased and the relative value of both metals altered materially.

* "The Standard of Value" by Sir David Barbour, K.C.M.G.

* * Shakespeare's Henry IV.

CHAPTER III.

CURRENCY IN CHINA *

My purpose in giving a resumé of the process by which gold and silver came to be used as the mediums of currency in other parts of the world is to enable my readers to grasp the significance of the history of currency in China. But for centuries in the past, almost since the dawn of history, the real basis of currency in China has been copper. Even to-day, when practically every transaction with the outside world has to be done in gold and every local transaction has to be done in silver, the basis of prices remains in cash, or, to be precise, in multiples of cash. For thousands of years China has been using gold and silver, although there has been no continuity in the use of either one of the metals or both as currency. But unless one clearly grasps that gold or silver were only currencies in so far as they were multiples of cash value, the question of the standard of value in China would prove almost impossible of understanding. It is understood, of course, that China has had a very ancient civilization. Money was in circulation in this country as early as the reign of T'ai-hao (2953 to 2839 B.C.); during the dynasties of Hsia (1990 to 1558 B.C.) and Shang (1558 to 1050 B.C.) gold, silver and copper money were in circulation besides the

* I must acknowledge my indebtedness for several of the facts in this and the next Chapter to "The Currency Problem in China" by Wen Pin-wei, "Chinese Currency" by J. Edkins, and "The Trade and Administration in China" by H. B. Morse.

well known cowrie shells. Even in those times a very elementary process of minting was in vogue; and the coins were known as the round money, bell-shaped money, and the knife-shaped money. It is understood that during the early periods of China's history the cowrie shell constituted practically the only medium of exchange. In the Chow dynasty or about 1032 B.C. gold money unit was the Chin or Catty, 1 cubic inch in size; and the copper money was round with a square hole in the centre. The monies or coins that were in daily use and popular, were the Ch'an or spade-shaped money, the Pu or bell-shaped money and the Tao or knife-shaped money; these were popular because they resembled the implements in daily use and were freely circulating up to the third century B.C. in practically the whole area of what was then known as China. During this period gold, pearls, and precious stones formed the upper two grades of currency. At about the close of the third century B.C. important political changes took place and the Prince of Ch'in unified the country by gradually subduing all the rival principalities; he extended the circulation of the round money by prohibiting the use of cowrie shells, pearls, gems and precious stones as currency. The units of the gold coin were the Yi, twenty taels in weight and the Chin, sixteen taels in weight; these were used as currency quite extensively. Further, the lower grade or common currency consisted of the round money, Pan-Liang, half a tael in weight. During the Han dynasty there was a slight change in the weight of the gold unit. But the most notable event was the adoption of the copper cash about 1/5 of a tael in weight as the standard—although, however, frequent

alterations were made in the weight of this unit. For various reasons the Emperor Wen-ti thought it best to allow free private coinage; in the next reign this right was abolished. Wang Mang's decree introduced three new varieties of cash besides the one mentioned above; large coin, which was two inches in diameter, about half a tael in weight, bearing the inscription meaning "large cash, worth 50", secondly, the Ts'i Tao, worth 500 units the nature of which is not known at present, and thirdly Tuo Tao, worth 50 units. When Wang usurped the throne he made further changes, and during his reign from 7 to 22 A.D. there were 28 different kinds of money; there were gold, silver of two qualities, four grades of tortoise shell, five grades of cowrie shell, ten grades of Pu or bell-shaped money and six grades of copper coinage.

For nearly 600 years after this period there was a jumble of currency, although the use of metallic money was quite common. Frequently, efforts were made to abolish the use of metallic coins and return to the use of commodities as mediums of exchange. In about 220 A.D. an Imperial decree was issued abolishing metallic money and substituting measures of grain and rolls of silk as circulating media. Attempts like this often failed, simply because a substitution of commodities in frequent use as currency led to deterioration in value; and time and again copper money as well as other kinds of money had to be restored again. During the Tang dynasty efforts were made to standardise currency. The first regulations were promulgated in the fourth year of the reign of Wu-te, 620 A.D. The standard coin was arranged to be 1/10 of a tael in weight, 8/10 of an inch in diameter, and one thousand of such coins to weigh

six catties and four taels. Mints were established in several important cities and placed under the supervision of government officials; counterfeiting was made punishable by confiscation of property and death. At the same time the right to coin money was granted to the Emperor's favourites.

No Profit from Coinage.

Up to the close of the eighth century the policy of the Government in China was regulated by the principle that coinage was for the convenience of trade and, incidentally, one of the means of enriching the nation. As I have pointed out above, gold and silver were used as commodity money almost all through this period; no efforts were, however, made to coin these precious metals. On the other hand copper was coined extensively and frequently, in several denominations. It must, however, be borne in mind, in order to have a correct perspective of currency conditions in this country that the use of coins for whatever purpose was extremely limited. The idea of obtaining profit out of coinage never entered the minds of the government in ancient China or, for the matter of that, in any other part of the world. The reason is obvious. Profit from coinage arises when the Government legislates for use of token coins and the people accept them, i.e., coins that have a much larger value in trade and other daily transactions than what they are intrinsically worth. As the government in China used only copper money it was rather hard to make any profit out of such issues, nor did it attempt to make any. During this period the revenues of the government were always collected in copper coins, in the agricultural produce of the land, besides silk.

Bartering was still practically the only method of exchange, as it continued to be for centuries afterwards.

Counterfeiting an Old Practice.

With the coming into power of the Tang dynasty at the close of a long period of civil warfare there was perceptible progress in trade —mainly due to the attempt at standardizing currency during their rule. The coins of this period were extremely simple of manufacture, and being mostly in copper, their manufacture by unauthorised process grew to be a nuisance. In every part of the country the authorised coins were swamped with counterfeit issues and the chronicles of currency under this dynasty were no more than monotonous repetitions of harsh laws against counterfeiters. It is recorded in history that when counterfeiting on land became dangerous coiners transferred their operations to vessels and rafts in the rivers. The result was the issuance of an edict to the effect that when over a hundred catties of copper and tin were found on board a vessel the government had the right of confiscating it. In modern times in civilized States, the process by which coins are minted is so complicated and scientific that counterfeiting becomes extremely dangerous. The mechanical execution of modern coins is so perfect as to make forgery impossible—although, however, it is well known that counterfeiters have also taken advantage of the progress of modern science and produced coins not very easy of detection. In modern times the coins are struck and the edges are milled. In ancient China, on the other hand, the crude practice of casting the coins in moulds was adopted—a practice that was in vogue, even at the close

of the 19th century. It was easy, therefore, to obtain a copy of the mould and for a clever counterfeiter to go on making exact copies of the government's coins.

SILVER AND COPPER STANDARDS.

It is difficult to designate the position of currency in China at any period, under any of the heads known to experts of currency. At no time was there anything corresponding to a system. Especially after 1890, up to to-day there have been the following to reckon with: the cash coinage, now complicated by the issue of ten-cash pieces, which are really token coins; silver bullions, based on the unit of the tael and only to be found in the shape of the sycee or horse-shoe of varying weights, touch and fineness; actual silver coins, which are, however, mostly Mexican dollars and dollars of other foreign countries, and, quite recently, of provincial mintage; lastly, subsidiary silver coins which have been brought out of the several provincial mints—practically of all them ten and twenty-cent pieces—circulating independently of the dollar and with varying values as compared with the dollar. When approaching the question of currency in China it must be carefully borne in mind that there is no legal tender of any coin in the country. But there is a sort of bimetallic arrangement, operating with the copper cash and the silver tael as units—the cash being a standard coin and the tael an uncoined unit of weight. This should not be confused with bimetallism, as known and understood in the West. Silver and copper in the currency of this country are independent of each other and circulate without a fixed ratio of exchange between them. Attempts were, however, made from time to time to

regulate the value of a tael at a thousand times that of the cash; it was, however, found impossible to bring about such regulation as the exchange between the cash and the tael depended very largely and generally upon their values as metals in the market.

The Cash.

Although it was originally intended that cash should be in pure copper, in actual practice the coin was of bronze, i.e., a mixture of copper and spelter or zinc. It is useless to attempt to give the standard weight of this coin. As far as is known at present, those of the reigns of Shun Chih, K'ang Hsi, and Yung Cheng are larger and of better quality than those of the reigns of Ch'ien Lung, Chia Ch'ing and Tao Kuang; the cash coins issued during all these reigns are superior to the issue of the later reigns, both in size and weight. We can only compare the different coins issued during the rule of the Manchus, for the issues of previous dynasties are mostly defaced and very much worn. During the last fifty years of Manchu rule counterfeiting was extremely common, the counterfeit coins were accepted without question and the Government rarely made any successful attempt to check this practice; the result usually has been an inflation of prices in proportion to the extent of the activity of counterfeiters.

The lack of uniformity in the size and weight of coins in this country may be attributed to the following causes: Circulation of the issues of the several reigns of the Manchu dynasty at one and the same time, along with the survivals of the issues of the previous dynasties, extending as far back as the eighth century; the primitive method of coining

through moulds which rendered uniformity almost impossible, and as mints were not all under the control and management of a central authority imitation became easy; lastly, the practice of accepting counterfeit coins, even when known as such.

The cash currency is reckoned in the terms of Tiao of nominally a thousand coins. But in practice the Tiao is only 490 coins in Tientsin, 160/163 in and near Lanchow, 620 in Yunnan city, and 980 in the province. Just what this means is graphically explained in the "North-China Herald" in 1889 as follows:—

"The subject of Chinese currency demands not a brief paragraph but a comprehensive essay, or rather a volume. These chaotic eccentricities would drive any Occidental nation to madness in a single generation, or more probably such gigantic evils would speedily work their own cure. In speaking of the disregard of accuracy we have mentioned a few of the more prominent annoyances. A hundred cash are not a hundred, and a thousand cash are not a thousand, but some other and totally uncertain number, to be ascertained only by experience. In wide regions of the Empire, one cash counts for two, that is, it does so in numbers above twenty, so that when one hears that he is to be paid five hundred cash he understands that he will receive two hundred and fifty pieces, less the local abatement, which perpetually shifts in different places. There is a constant intermixture of small and spurious cash, leading to inevitable dispute between dealers in any commodity. At irregular intervals, local magistrates become impressed with the evil of this debasement of the currency, and issue stern proclamations against it. This gives the swarm of underlings in the magistrate's

yamen an opportunity to levy squeezes on all the cash shops in the district, and to make the transaction of all business more or less difficult. Prices at once rise, to meet the temporary necessity for pure cash. As soon as the paying ore in this vein is exhausted, and it is not worked to any extent, the bad cash returns, but prices do not fall. Thus the irrepressible law by which the worse currency drives out the better, is never for an instant suspended. The condition of the cash becomes worse and worse, until, as in some parts of the province of Honan, everyone goes to market with two entirely distinct sets of cash, one of which is the ordinary mixture of good and bad, and the other is composed exclusively of counterfeit pieces. Certain articles are paid for with the spurious cash only. But in regard to other commodities this is a matter of special bargain, and accordingly there is for these articles a double market price. That enormous losses must result from such a state of things, is to any Westerner obvious at a glance, although the Chinese are so accustomed to inconveniences of this sort, that they seem almost unconscious of their existence, and the evils are felt only as the pressure of the atmosphere is felt. Chinese cash is emphatically 'filthy lucre.' It cannot be handled without contamination. The strings, of five hundred or a thousand (nominal) pieces, are exceedingly liable to break, which involves great trouble in re-counting and re-tying. There is no uniformity of weight in the current copper cash, but all is bulky and heavy. Cash to the value of a Mexican dollar weigh not less than eight pounds avoirdupois. A few hundred cash are all that anyone can carry about in the little bags which are suspended for this purpose from the girdle.

If it is desired to use a larger sum than a few strings, the transportation becomes a serious matter. The losses in transactions in ingots of sycee are always great, and the person who uses them is inevitably cheated both in buying and in selling. If he employs the bills of cash-shops, the difficulty is not greatly relieved, since those of one region are either wholly uncurrent in another region not far away, or will be taken only at a heavy discount, while the person who at last takes them to be redeemed, has in prospect a certain battle with the harpies of the shop by which the bills were issued, as to the quality of the cash which is to be paid for them. Under these grave disabilities the wonder is that the Chinese are able to do any business at all; and yet, as we daily perceive, they are so accustomed to these annoyances, that their burden appears scarcely felt, and the only serious complaint on this score comes from foreigners."

Silver as Standard.

Even to-day, although there is a sort of silver currency, cash or copper coins almost rule the roost. The history of the introduction of silver as currency in China is given in my book "Finance In China" and it is needless to repeat it again. But it is admitted on all hands that a great deal of the silver now in circulation in this country came in through the medium of foreign commerce. In the early years of foreign trade, even as late as 1860, imports of foreign goods rarely equalled exports of tea and silk—which were at one time practically the only articles of export, and which were available only in this country. During a number of years in the latter half of the eighteenth century the imports

of foreign articles amounted to one-fifth of the exports. Trade had to be balanced somehow, and the balance in values had to be paid in silver. It is useless to speculate on the total amount of silver that entered this country through these means; nor is such speculation of any practical value, as it is impossible to calculate the total of silver that went out of the country in the early decades of the nineteenth century on account of the increase in the importation of opium. As is well known, the balance of trade in the latter half of the nineteenth century has been uniformly unfavourable to China. The effect of such a situation was not, however, a large increase in the exportation of silver. As a matter of fact, in the very worst years from the point of view of China trade, as for example in 1906 to 1907, the export of silver was less than one-twentieth of the total adverse balance. The reason why export of treasure became unnecessary in spite of the large increase of imports over exports was that, owing to political and other causes, China started to borrow heavily from foreign countries.

A little explanation is necessary to make this point clear to my readers. Supposing that China contracts a loan in London or Paris for £10,000,000, it follows, as a matter of course, that this amount is to be sent in silver to this country; supposing that at the same time the balance against China in trade is about Tls. 70,000,000, or, in other words, merchants trading in China owe manufacturers in Europe the sum of Tls. 70,000,000 or approximately £8,500,000. The account under such circumstances is adjusted in the following manner; instead of a double transaction of the transmission of £10,000,000 to China and £8,5000,000, to Europe, the operation is simplified by Europe remitting £1,500,000 in silver to China.

Silver and Gold.

It so happens that, ever since the balance of trade of this country grew to be increasingly against it, the Government had begun to borrow large sums. Of course, the total of Govrenment borrowings is only a fraction of the total of the adverse balance. One has, however, to bear in mind the fact that, along with the large increase of foreign trade, during this period a large amount of foreign capital was introduced into this country, both for the purpose of trade operations as well as for railway and industrial development. As I have shown in " Finance In China, " the total of the sum due by this country to foreigners on account of foreign commerce is balanced properly by the loans of the Government, the sums spent on the construction of railways, etc., and the sums invested by foreigners in business. Hence, it is not surprising during all these years there was very little export of silver. The estimate of the imports of treasure from 1864 to 1913 is Tls. 1,228,000,000 as against exports of Tls. 1,000,000,000; according to the Customs returns the imports of treasure from 1892 to 1913 were to the value of Tls. 722,852,000 as against exports during the same period to the value of Tls. 690,780,000. Thus we see that in spite of the economic and political situation, more silver came into the country than otherwise. Another point has to be noted in connection with the movement of treasure. A study of the statistics of trade returns will show that the larger portion of the exports of treasure from China goes in gold—especially leaf gold; while the larger portion of the imports of treasure comes in silver—especially bar silver, which is melted and converted into sycee on arrival.

CURRENCY IN CHINA

The Tael a Weight.

Statistics show that on an average, during the past forty years, about £1,500,000 a year has been sent out in gold while about £3,000,000 has been received in silver. There have been exceptions to the rule as in 1892, when the imports of treasure amounted to £1,250,000 and exports totalled about £3,000,000. In 1877 the excess of imports was as high as £5,300,000 while again in 1911 the excess was as much as £5,000,000. Thus statistics prove conclusively that China has been uniformly importing silver while exporting gold. It is evident that the proclivities in this country have been exclusively towards the use of silver; and the Government could do nothing else but to continue to have silver as the basis of currency, next, of course, to cash. The majority of the population is certainly too poor to use silver to any large extent. But with the increase in foreign trade it was found impossible to continue to have the cash as the sole basis. The history of the ancient dynasties in China shows that, although there was a tael, which was a weight for several particular transactions and used in the imperial accounts, the main unit was cash. The price of an article was generally mentioned not as one or two taels, but as one thousand or two thousand cash. It must, however, be understood that there was never a fixed ratio between the cash and the tael. The tael has for centuries remained the unit of silver currency, and it was decimally divided into maces, candareens, etc. The tael was not only a standard of value, but also a measure of weight; as a matter of fact it was for long a measure of weight, before it ever became the standard of value. Owing to the nature of the goverment in this country for

ages past, and owing to the fact that no regulations—even such as relate to vital problems, as the use of money—could be enforced, there was no uniformity in the several taels current in the different parts of the country. The weight and value were given in multiples or divisibles of taels, in Newchwang just as much as in Canton; but owing to the unsatisfactory state of decentralization, which has prevailed for centuries, the tael as a measure of weight and value in Newchwang was altogether different to the tael in the same capacity in Canton.

No Uniformity.

The exigencies of the situation in China proved of no help towards the maintenance of a uniform currency. Apart from the fact that the people were by nature and training a race intensely fond of speculation, the Chinese had never a proper understanding of the value of money. The population of the country has grown enormously, without reference to the available opportunities of making money. Although the great majority of the people were engaged as tillers of the soil, a large number of people have had to follow the avocations of commerce. With the passing of each year the number of people engaged in trade has been increasing, while the volume of trade did not increase in the same proportion. It must also be remembered that with the general increase in population, and the retention of primitive methods of cultivation there was not much room even for a large addition to the number of cultivators. A number of causes, therefore, conspired to bring about the trade in money —thus defeating the very purpose for which money was instituted. The object of having a system of money in China, as in other parts

of the world, was to have a medium by which the exchange of commodities could be facilitated. This implied, as a matter of course, that in view of the fact that the value of commodities varied often and for various causes, money or the medium of exchange should have a certain amount of fixity. We do not know if, at any period in the history of this country, there was any fixity as regards money. All that we know is that trade in this country, both internal and external, has always been double faced; business between one province and another, between even two districts in the same province, has had to be take count of not only the value of commodities but also the value of money. When a man from Shantung buys piece-goods in Shanghai he has not only to fix the value of the commodity he buys in money, but also the value of the money he has to pay in term of the local currency. The value of money or the tael is regulated by the weight as well as purity and local custom. It is well known that there is no coin known as the tael. A transaction in taels implies the use of the bullion in bars or sycee. Bar silver is the purest form of silver known in commerce and is practically negotiable in any part of the world. The use of bar silver would thus very nearly approximate the use of the standard coin; hence it is of no use for the purposes of the Chinese, except in very limited quantities. Practically every transaction in local or foreign trade is made through the medium of sycee or horse-shoes. The usual process is to melt the bar silver that comes to the ports and pass them through the moulds of sycee. The sycee is of varying weights, from one tael to fifty taels. The amount of alloy to be used in the manufacture of sycee or the purity of the silver

bullion, varies with the usages in different localities. For instance while the silver in the Wenchow tael is 561.7 grains the silver in the Amoy tael is only 516 grains. And there is the touch, that is, the purity of the actual silver in the sycee. It is not unusual that the sycee of a place which has a larger proportion of silver may have less value than that of the sycee of another place which contains less silver, because of the difference in the touch. European countries or other nations that have come under European influence, have simplified this by means of coinage; in such countries the coins are minted by the government and they contain a fixed amount of metal of an invariable degree of fineness. Until recent years the Chinese Government had not even made an attempt to issue coins in silver in the manner in which it is done in other countries.

Foreign Dollars.

It is purposeless to go into the early history of the currency in China, as this subject has already been dealt with by competent authorities like the late Mr. Edkins and Mr. H. B. Morse. There is confusion enough in local currencies. The variability of the monetary unit of the tael is due to the employment of uncoined silver currencies. But during the past hundred years there has been the additional difficulty caused by the introduction of foreign dollars. It is stated that the Portuguese and the Spaniards brought the dollar into China as early as the seventeenth century. Being practically the only coin the Chinese had ever seen the dollar soon gained great popularity; and when the East India Company began to trade with China, they had to import this dollar with which to pay their purchases of tea and silk. The introduction of the dollar was also made easier by the fact

of Canton being the sole port open to the foreign trade for nearly a century since 1757. Of the several dollars that came into China the Carolus dollar of Spain was more readily accepted than any other coin. During the Napoleanic Wars about three-quarters of the trade of China was paid for in Carolus dollars. As usual the officials in this country were chary of the popularity of anything foreign; they took steps to stop the inflow of foreign dollars. At the close of the eighteenth century the officials ordered the silversmiths to make dollars like those made by the foreigners. Apart from the fact that the workmanship in the coins was not quite as good as that of the imported ones, the silversmiths began to use a large proportion of alloy in order to make as much profit as possible. It is stated that in some of the coins that were issued there were five parts of alloy to eight parts of silver. The inevitable result was that the coins depreciated heavily and the Government had to step in to stop private coinage. Further, all sorts of tricks were tried in order to delude the public; and business men were obliged to draw a line between the proper dollar and the imitation dollar; one of the steps taken was to chop the dollar with an impressed ideogram in order to give a guarantee of genuineness.

When this was repeated very often, the defaced coin in a few instances resembled a disc. These chopped dollars were first in circulation in Canton and later on they circulated in practically every part of south China. Carolus dollars were the only foreign coins accepted by the population in the eighteenth century—even up to the early decades of the nineteenth century. During the succeeding decades these coins commanded a premium

of at least thirty per cent, until the Mexican dollar dethroned them from their high pedestal; about sixty years ago. Besides the Mexican dollar the other foreign coins which were more or less in circulation in South China up to 1840 were the Peruvian, Bolivian, Chilian dollars and the Indian Rupee. The South American dollars found their way to China mainly because they were driven out of their home countries by the circulation of depreciated paper currency. It is interesting to note that in 1842 the following were the relative values of the different currencies: in order to pay Tls. 100.00 of fine silver it was necessary to pay by weight 111.455 taels in Peruvian dollars, 111.900 taels in Mexican dollars, 112.150 taels in Bolivian dollars, 112.520 taels in Chilian dollars, 109.790 taels in Indian Rupees and 113.207 taels in chopped dollars. Although the Mexican dollar was steadily taking the place of the Carolus dollar in Shanghai as also in the Yangtsze basin, the Carolus continued to be the money of account; and hence there was the steady import of these dollars to settle balances. Enormous amounts were being imported; still, the supply of Carolus was not sufficient to meet the actual demand for silver. The ravages of the Taiping Rebellion restricted the consumption of imports, and notwithstanding increased importation of Carolus dollars collected from all parts of the world, these coins were at an extraordinary premium, which in 1855 amounted to 50 per cent. and in 1856 to 80 per cent.; and Mr. Morse says: "the most curious spectacle was seen of exchange quoted at Canton at four shillings and eleven pence per dollar (Mexican of 416 grains) and at Shanghai at seven shillings and nine pence per dollar (Carolus of 402½ grains)." *

* "Trade and Administration of China" by H. B. Morse. Pp. 165.

It thus became intolerable and gradually people began to give up the Carolus and take up the Mexican more and more. Although various attempts have been made to replace the Mexican dollar, so far it has never been displaced from general circulation. Many competitors of the Mexican have appeared in the field, but none have succeeded in gaining a footing in this country. The American "trade dollar" was introduced thirty years ago; the Congress at Washington was anxious that it should displace its rival by its weight—420 grains instead of 416 grains of the Mexican. The Chinese are a shrewd people, and when they saw two coins put into circulation side by side, they naturally let the heavier coins go into the melting pot; thus every American dollar disappeared the moment it were put into circulation in this country. The Japanese dollar, or the yen, had a moderate measure of success; at first the coin was heavier and finer than the Mexican dollar and shared the same fate as the American "trade dollar"; but later, the establishment of a gold standard in Japan put an end to the use of yen which was no longer a monometallic silver coin. The British dollar issued from Hongkong circulates to a very large extent in Fuhkien and the two Kwangs. The French piastre is the coin of the Colony of Indo-China; and it has a great measure of success, especially in Yunnan and Kwangsi. The Indian Rupee is more popular than any other coin in the Western Borders of Yunnan and Szechuen, as also in Tibet.

Coinage of Silver.

Attempts were made from time to time to surpress the circulation of foreign coins as well as the importation of opium, shortly before the

the war, misnamed the Opium War. In 1836 the provincial treasurer of Canton pointed out that such action would prove suicidal to China, especially as the coins were of great convenience to trade and unlike opium were not productive of harm to China. He also pointed out that a great deal of harm should result by arbitrary action, as the foreign coins had an extensive circulation in the four coast provinces of South China. After the war of 1842 all kinds of foreign coins were declared lawful money in Canton.

The authorities have frequently made attempts to follow modern European countries in respect of money; and attempts have been made often to coin silver dollars. The first is known to have been made in the Province of Fuhkien and in Formosa in about 1835 to obtain money in order to pay the troops. Wells Williams in his "The Middle Kingdom" states that a specimen of the coins minted at this time bears the inscription, "Pure silver for current use from the Chang Chau commissariat; (weight) seven mace, two candareens." * Another specimen according to the same authority was of the same weight and fineness and had on the reverse "an effigy of the god of Longevity on the head and a tripod on the tail to authenticate its official origin," * * besides the inscription on the obverse in Chinese and in Manchu. In about 1856 the insufficiency of the supply of Carolus and all other foreign dollars led to the adoption of the Shanghai tael as the money of account. Also, an attempt was made in Shanghai at about that time to coin this tael money of account.

* "The Middle Kingdom" by S. Wells Williams. Vol. II. Pp. 84.

* * Ibid.

First Modern Mint.

The first attempt to establish a mint with proper organization and machinery was made at Canton in 1887, although it was not intended to be a part of a national currency system. The Canton mint was purely a provincial undertaking for the convenience of trade and was founded by the famous Chang Chih-tung, when viceroy of the two Kwangs. The reasons for the founding of this mint were rather extraordinary. After the country became settled after the Taiping Rebellion, the condition of the cash currency was very unsatisfactory because of the stoppage of the coinage of cash. When after a few years of peace commerce revived, the demand for cash coins increased; in Peking, for instance, ten-cash pieces had depreciated to about two cash and such demand caused a good deal of disturbance in the market. There was, moreover, the added trouble due to the depreciation of silver after 1873—such fall enhancing the silver value of the cash. The result was that debased and counterfeit coins appeared in large numbers in all parts of the country while coins of proper weight and good quality were scarce. Conditions were growing worse year after year until in 1887 the Empress Dowager issued the following edict in response to a memorial of the Board of Revenue:

"All provinces along the Yangtsze and the Sea Board are required to convert a portion of their remittances to Peking into cash and send this cash to Tientsin, there to be stored up in readiness for use in Peking; also that the provinces which are required by law to convert cash should one and all be called upon to commence operations without delay with a view to a gradual restoration to the old basis."

Most of the officials were neither willing nor able to comply with the order of the edict; the viceroys and governors complained that the initial outlay for the establishment of a mint was too much for the locality. The Government at Peking was at its wits end as to what step to take; by an edict the depreciated ten-cash currency in Peking was given a fixed legal value of two cash—which was the market value in 1887. The only exception was the steps taken by Chang Chih-tung who ordered the machinery for a mint in 1887. Chang's ambition was to bring about a national currency; he proposed the unit of a dollar, slightly heavier than the Mexican, in order to make the new coin easily popular. He proposed that the coins thus issued should be receivable in all payments of public dues; he also suggested that a million dollars should be struck and introduced experimentally—a further five millions to be issued later on. If the experiment proved a success he proposed to have the central mint at Tientsin to coin national dollars, and stated that an issue of ten million dollars a year for several years would bring about the introduction of a national currency in the easiest manner possible.

The Canton Mint.

Chang sent in a memorial to that effect, which was, however, referred to the Board of Revenue. Although he failed in his effort to introduce a national currency, he managed to procure a provincial silver mint for Canton. The following extract from his memorial is very interesting as well as instructive:

"The province of Kwangtung is the mart of China's trade with Europe, and the foreign dollar is the circulating medium not only there

but in Kwangsi, Fukhien, Formosa, Shantung, Chihli, several of the interior provinces and the North Eastern frontier. Wherever there is an open port the Mexican dollar is taken as the common currency. In this way the advantages to our Government of having a national currency of our own are lost, while they are being reaped by other countries. The principles governing the coinage of cash and of silver are the same—that is they should both be made at our mints and by our own methods in order that we may maintain our national standing. In the province of Kwangtung the system of our own coinage is especially necessary, as the currency there consists principally of old and mutilated dollars and broken pieces of silver, the use of which is a source of much loss to all concerned."

The Canton mint cost about $1,000,000 and was ready in the early part of 1890. The standard coin was the dollar valued at 72 tael-cents in weight—the value being based on the treasury tael—900 fine. The object in this case was to compete with the Mexican dollar, the value of which fluctuated round about 73 treasury tael-cents. Of course, it was even more necessary to mint subsidiary coins; the fractional coins minted at Canton were of four denominations, namely, fifty-cent, twenty-cent, ten-cent, and five-cent pieces. The fifty-cent pieces were 860 fine, the twenty-cent and ten-cent pieces 820 fine and the five-cent pieces 800 fine. These subsidiary coins were in silver and one-cent copper pieces were also minted. At the close of the first year about $3,000,000 worth of coins were issued from the new mint; it is needless to say that only a fractional part of the total value was in dollar pieces. A report of the United States Mint says that

an analysis of the available statistics shows that the output of the Canton mint during the first nine years of its existence was comprised of only about $3,000,000 in dollar pieces while the fractional coins—mostly twenty and ten-cent pieces—were to the total value of about $48,500,000, or nearly 95 per cent. of the total output of $52,310,760.15. To one who has not a correct perspective of affairs in China, it should indeed be surprising that there should have been such a disproportionately large issue of subsidiary coins. There is, however, a doubt if the demand for fractional pieces was quite equal to the output. The people of China are extremely poor, judged from the Western standpoint, or even the standards of India or Japan. Away from the town, practically all transactions necessitated the use of coins of small denominations—cash or even fractions of cash—the cash being one-tenth of a cent. Compared with the farthing or the pfennig, the cash is very insignificant in value. The position in China was that while the silver tael and its decimal parts were not coined and the use of bullion was attended with great inconvenience, the dollar, even though coined, was altogether too large for ordinary use. The great majority of the population naturally took to the subsidiary coins—especially twenty and ten-cent pieces. Even these subsidiary coins generally commanded a premium in cash of from ten to twenty per cent. While the demand was sufficient inducement, mint authorities had the additional incentive of large coinage profits from these small pieces—for while the dollar piece was 900 fine, twenty- and ten-cent pieces were only 820 fine. However, neither the Government nor the people understood the significance of

legal tender, and consequently there was no limit to the legal tender of these subsidiary coins. An idea of the profit from coinage may be judged from the fact that in Hongkong, out of the Colony's total revenue of $1,557,300 in 1888, $72,000 was the profit on subsidiary coinage—on an issue of coins worth $910,000.

A Plethora of Mints.

Ever since the Taiping Rebellion the finances of this country were known to have been precarious; and the provinces took favourably to any means of enhancing revenue, whether such proved eventually good or not. When several provinces saw huge profits arising out of coinage in Canton, as well as in the British Colony of Hongkong, they set to work to establish mints themselves. Shortly after the establishment of the Canton mint, Chang Chih-tung was transferred to Wuchang as the Viceroy of Hukwang. In 1895 he helped to build the Wuchang silver mint. He also made an effort to bring about a fixed ratio of exchange between the new silver dollar and cash, by issuing a proclamation, in 1896, that the new Hupeh dollar was officially worth 1000 cash. It was, however, found that official proclamations were of no use, when they were up against economic forces. The next mint to be established was the Peiyang in 1896, when the question of having the tael or dollar as a unit was again discussed, and decided in the favour of the latter. The mint at Foochow was also built in the same year. This mint has coined nothing but ten- and twenty-cent pieces during the whole course of its existence. Six other mints were established or projected in 1898—the activity during this period being

mainly due to the reform agitation which followed the defeat of China at the hands of Japan. By the end of 1898 there were ten provincial mints operating, or about to begin work, which were as follow: Canton mint established 1890, Wuchang 1895, Peiyang or Tientsin 1896, Foochow 1896, Nanking 1898, Hangchow 1898, Nganking 1898, Mukden 1898, Kirin 1898, Chengtu 1898; a number of other establishments were projected but given up later on. Although most of the mints paid special attention to the subsidiary silver coins, they certainly turned out many millions of dollars. As they were all purely provincial coinage which, for some reason or other, the Central Government was not willing to accept unreservedly, these Chinese dollars were not freely received for taxes; and when taken were accepted by weight and not by count. These provincial dollars never quite succeeded in displacing the Mexican or other foreign dollars. For one thing, they had only a provincial guarantee and outside of the province of issue circulated only at a discount. Owing to the limited demand for them, the annual output of dollars decreased from millions to thousands. The energy of the mints was, however, devoted towards coining an unlimited number of ten- and twenty-cent pieces until the revolution of 1911. The mints had the prospect of large profits from the use of these coins, while the money changers took to this issue because of the large margin between the rate of issue and the intrinsic value. These coins were only in the nature of an addition to the earlier cash and uncoined silver currency; they had not displaced any of the old currency, which circulated in the country to the great disadvantage of the Government and trade.

The result was that the value of the subsidiary coins began to depreciate and a dollar commanded a price in subsidiary coins valuing from eleven to twelve ten-cent pieces.

Copper Coinage.

If the depreciation of the silver subsidiary coinage was the only evil arising out of the establishment of provincial mints the situation need not have caused anxiety. But the currency situation has been considerably aggravated by enormous issues of ten-cash copper pieces from the provincial mints. In the latter part of the last decade of the nineteenth century the difficulty was to maintain the value of silver coins. The several provincial mints issued also the ten-cash or one cent piece; this coin was very popular, for it had an exchange value greater than a hundredth part of a dollar—on account of the depreciation of small silver. Although the cash was never intended to be a token coin and in the past the coinage of cash was on the basis of weight for value, the rise in the price of copper and the greed of officialdom in China led to very large reduction of the actual amount of metal in this coin, as also its multiples. The mint took advantage of the situation and issued the copper cent, inscribed at the mints as worth one hundredth of a dollar or ten cash; but these coins, when considered in relation to the dollar or to the cash, were actually only token coins, worth intrinsicly less than half their nominal value. The value of the cash has fluctuated enormously from as low as seven hundred to the dollar to as high as one thousand five hundred. About the time of the establishment of mints for silver coinage, copper cash was being minted in

almost all important towns in China. With the gradual increase of the number of new mints, and issues of ten-cash or one-cent pieces, the coinage of cash by crude methods was being gradually given up. Owing to the depreciation of the silver currency on account of the large issue of ten- and twenty-cent pieces the new mints began to devote great attention to the coinage of the copper one-cent pieces. For some years, the profits were so huge that the mints in some places almost exclusively devoted their time to the issue of copper coins. It is a rather remarkable trait in Chinese character that when any new plan is adopted they generally overdo things. The result in this case was that the mints began to flood the country with the copper one-cent pieces; and before the Revolution in 1911, values had so depreciated that a dollar was worth as much as 150 one-cent pieces.

Paper Money.

No discussion of the currency in this country should be complete without a proper enquiry into the history of paper money in China. The earliest period in which paper is known to have been issued is in about 806 A.D. The causes that lead to the adoption of paper money were many. In the latter part of the eighth century and also in the beginning of the ninth century coinage was irregular; although the only coin in circulation was the cash, the supply was insufficient, mainly due to want of metal to coin with, as also the very slow process of minting that was then in vogue. One report states that even copper and bronze statues and statuettes of Buddha were melted down for metal for coinage. Even so the supply proved insufficient; iron was

used, and in the province of Szechuan iron coins became practically the only currency. Although trade during this period could not have been of any appreciable total there is no doubt that the copper and iron money, especially the latter, must have been very inconvenient—on account of the weight. People soon found that some method, which would obviate the carriage of huge weights of metal from one place to another, must be adopted. The authorities were approached and an understanding was arrived at that the government office would give a certificate of deposit in exchange for coins, and that such certificate should have the same value as money. The arrangement thus arrived at proved for a time very effective, because the certificate issued in one province was always cashable in another, however distant. These certificates became very popular; an ancient Chinese historian said that "because the merchants could travel or carry on trade relations in distant places with light equipment, this new currency came to be called the 'flying money'." During the few decades following upon the introduction of this 'flying money' the people began to take to it so much that the Government began to be anxious about metallic money. The Government feared that it would displace the metallic money, and therefore suppressed paper.

Skin Currency.

For over a hundred years after a suppression of the 'flying money' there was no other medium of exchange, apart from commodities, but copper coins. Before proceeding further, I must refer to a curious medium of exchange known as "skin currency" which, however, rarely circulated beyond the few Court nobles.

Ma Tuan-lin states that in the reign of Wu-Ti of the Han dynasty, in the early part of the second century B.C., pieces of skin of white stag, measuring one square foot and embroidered on the hems, of a nominal value of 400,000 (units not specified), were issued among the Feudal Princes and Nobles of the Court, to represent values. This skin currency is known to have continued to exist for quite a long while—as late as 1200 A.D.

Sung Notes.

The next occasion on which paper began to have currency value was in 960 A.D.—when the Sung dynasty was first established. At first merchants were allowed to pay sums into the Government Treasury at the capital or in the provinces in exchange for notes, redeemable in cash on demand at any of the Government Treasuries. When these notes became generally current and very popular, the Government began to make issues expressly for general circulation. Although at this stage—or for the matter of that, even to-day—the Chinese had not understood the real meaning of reserves and the issues and redemption of notes, we have records that the Government made every effort to secure these notes against depreciation. The total value of these issues, was, however, comparatively small, and, according to Ma Tuan-lin, the amount in actual circulation at any period during the early years of the Sung dynasty never exceeded 2,830,000 kuan—the kuan being nominally worth 1,000 cash. These notes were called in Chinese "pien-ch'ien" or convenient money.

Szechuan Paper.

China, or even the whole world, is indebted to Szechuan for the introduction of paper

money, in the manner it is known to-day. Szechuan is far removed from the coast and is the western-most province. In the early period of Chinese history the province has more than once been an independent state. When after a rebellion, Kung Sun-shu proclaimed himself at first Governor, and, later Emperor, of this province in about 25 A.D. he put into circulation the iron currency. This iron money was very heavy and weighed 25 catties for 1000 pieces of large coins and 10 catties for 1000 small ones. The people were very much discontented with these heavy coins; and on the initiative of Chang-Yung, a noted administrator at this period, sixteen wealthy business houses formed into a partnership or guild and issued notes as Chiao-Tze or exchanges for circulation. People turned with relief from the heavy iron coins to this paper money, which soon became, for all practical purposes, the currency of the province.

It was all very well for these notes to displace the specie and become the currency of Szechuan; but when there were no proper or constant efforts to maintain the value of the notes there was trouble. As a matter of fact all the sixteen houses that were members had business reverses, the consequence being that their guarantee was of little value and the notes did not actually represent specie. There was a great deal of litigation on this point—while the financial situation was becoming worse every day. In order to prevent a financial debacle the Government declared that these notes were inconvertible paper currency, took over the right of issue from the guild, and established a separate Government office to manage the issue and circulation of paper money. From thence onwards the issue partook

of the nature of modern government currency notes. The Government saw the wisdom of keeping metallic reserves. By the first year of Tien-Sheng (1032 A.D.) the issue outstanding was 1,256,340 kuan—the Government keeping a specie reserve of 360,000 kuan. At first the Government restricted the issue to the actual demand and thus obviated every chance of depreciation in values.

When the Government notes had circulated for a fairly long period and when values were for several reasons well maintained it was but natural that, for a time at least, the Government should find no difficulty in issuing as much as it liked. There is reason to believe that at this period in the history of China the authorities never issued paper notes for larger sums than were absolutely needed. But, when in the eleventh century, the prolonged struggle when the Tartars exhausted the resources of the country, the Government was more or less forced to resort to the issue of paper money as a means of raising revenue. At no period in its early history has the Government of China attempted to secure financial gain for itself on account of its control of the monetary system. Circumstances alone necessitated excessive issues of the notes; all means were then devised to check the decline, consequent upon such issue and even to restore the paper note to its face value, in coin or metal. Thus a rule was promulgated that when business was transacted to the value of 10,000 cash or 10 kuan and upwards, half of this sum must be paid in specie and the other half in paper. One of the objects of such a rule was to make it difficult for people to ascertain and compare the fluctuations in the value of the paper; and it was thought that by such means

the notes would be restored to their full value in coin or metal. Such artificial means, however, proved of little avail to check the depreciation caused by over-issue of paper. Chinese historians state that when the seat of the Sung Government was moved south, paper to the value of twenty times the original amount fixed upon as the actual requirements of commerce was in circulation, and that all paper money fell to about one-tenth of its par value. To a very great extent, the lessening of the credit of paper money was due to the weakened power of the Sung Government, as a consequence of the frequent defeats at the hand of the Chin Tartars.

Frontier Bills and Hui-Tze.

From the reign of the Kao-Tsung in 1130 A.D. till the conquest of the whole country by the Mongols, China was divided into two halves—the Sung dynasty holding the Southern part and the Chin Tartars ruling over the Northern half. They were constantly at war with each other and both of them had to issue inconvertible paper money for purposes of revenue. The first attempt of the Sung dynasty was made in 1131, when the Kuan-Tze or Frontier Bills were issued in order to pay the troops stationed on the frontier. As the people had the bitter and unfortunate experience of paper money in the past, these bills had to be forced into circulation and consequently were heavily discounted. Besides the Frontier Bills the Government also issued tea notes, grain notes, and silk notes, exchangeable for tea, grain, or silk, and for such totals as were mentioned in the notes. But the Frontier Bills as well as all the varieties of notes were extremely unpopular; naturally the Government

invented the Hui-Tze in 1159; the Hui-Tze replaced all other notes in circulation. The Hui-Tze was in four denominations; the usual 1 kuan or the 1,000-cash note and 500, 300, and 200 cash notes. All these notes were again practically forced on the people and the latter made to pay in metal and coins. It was decreed that the public dues must be payable one-half in specie and the other half in paper—except in places remote from the waterways where the taxes and tributes might all be paid in paper. The object of such a decree was to prevent depreciation of Government paper; later on, this regulation was extended to all business transactions. The Government manufactured the paper for the notes, which were stamped with the Treasurer's seal before they were put into circulation. The Treasurer's seal gave the notes the character of fiat money—it being understood that the Government had the sole monopoly of the issue of paper currency. With every year, a further addition was being made to the total of paper money in circulation; when the Southern Sung dynasty was in its wane the finances of the state was in very bad straits —mainly on account of the excessive issue of the paper notes. When values became extremely low it became necessary that larger and larger quantities of paper money had to be issued and forced into circulation in order to obtain the necessary supplies. In about 1263 A.D. the Hui-Tze was everywhere utterly discredited; so the Government revived the Kuan-Tze which were of two denominations—silver and copper Kuan-Tze. It is an interesting speculation as to the result of the revival of the Kuan-Tze at that period; but before the close of sixteen years after the revival of the Kuan-

Tze, the Mongols had already conquered the Chin Territories and the Southern Sung dynasty came to an end.

The Chin Notes.

Contemporaneous with the Southern Sungs, the Chin Tartars ruled Northern China. So far as the issue of paper money was concerned they followed the Sungs—both of them running a mad race in the issue of the assignats. The Chin paper currency was inconvertible; it was called Ch'ao, a name subsequently adopted to denote both Government paper currency and bank notes, without distinction. The Chin Ch'ao was ten in number and of the following denominations: 10,000, 5,000, 3,000, 2,000, and 1,000 cash notes for use in "large payments" and 700, 500, 300, 200, and 100 cash notes for use in "small payments," or, in other words, as subsidiary currency. These notes were redeemable by the new series once every seven years, at a charge of 15 cash per note. The currency of the Chin's was better controlled and more centralized than that of their neighbours.

Mongol Notes.

When the whole of China was conquered by the Mongols—the conquest having been completed in 1279—when the Mongols ruled under the new dynasty called the Yuan, they repudiated both the Ch'ao of the Chin's and all the paper currency of the Southern Sungs. The Mongols were an unlettered race of conquerors, and when they conquered Northern China they found very little of metal circulation. They had to have supplies and when they took over the Chin territories they had an enormous amount of depreciated paper

money, the recognition of which by them would have led to no good to themselves. So, they repudiated the existing paper and in the 3rd year of the reign of Kublai Khan, in 1260, it was decreed that the Pao Ch'ao or precious notes were the sole legal currency. These notes were in ten denominations ranging from 10 to 2,000 cash, and taxes and dues were paid in these notes. The exchange offices were established in all commercial centres, worn-out notes were redeemed for new ones at an arbitrary charge, usually three per cent, of the par value. These issues were called the Chung-Tung, which was the title of the reign of Kublai Khan.

By 1279 the Mongols completed the conquest of China and the Southern Sung dynasty came to an end. The financial conditions in the territories ruled by the Sungs were only a shade worse than those of the portions under the rule of the Chin Tartars. The Mongols had no other course but to issue further paper money. In 1284 the new series, called the Pao-Ch'ao of Chih-Yuan were issued; these new notes were exchangeable for the Chung Tung notes at a rate of one to five or one note of the new series was to exchange for five of the old of equal nominal value. The total of inconvertible paper money that was issued during the 108 years of Mongol rule has no parallel in the history of any ancient or modern country. During the first sixty-four years from 1260 A.D. the total issue of paper notes amounted to 47,611,276 liang or 2,380,563,800 taels, nominal face value—the tael being always taken as equivalent to 1,000 cash. This gives an average of an issue of 37,000,000 taels a year. The dynasty lasted till 1367 or 108 years, and issues in the latter part of its

duration were greater than in the first sixty-four years. According to Chinese historians the average during the whole dynastic period was at the rate of 40,000,000 taels a year; in other words the Mongols during their reign of 108 years flooded the country with 4,320,000,000 taels of inconvertible paper money.

The three kinds of paper money issued during the reign of the Mongols were Pao-Ch'ao of Kublai Khan issued in 1260, Pao-Ch'ao of Chih Yuan issued in 1284 and Pao-Ch'ao of Chih-Ta issued in 1310. This last was issued when the Mongol dynasty was on its last legs and when paper money was so thoroughly depreciated as to be almost useless except where the authorities were able to force it on the people. These were exchangeable for those of the Chih Yuan at the rate of 1 to 5—the depreciation since the issue of the Chung Tung being thus 96 per cent.

During the last years of the reign of this dynasty the Mongols made various conquests, mainly through sheer force of arms. Thus they were enabled to bring about extensive commercial relations between China and other parts of Asia. Large quantities of silver were brought into the country in exchange for tea and silk and the use of silver as currency was being extended. The familiar units of weight, liang or tael, and the ting, worth nominally fifty taels, were used as the units of silver currency. But before the dynasty could derive any benefit from this change in the state of affairs, it was overthrown by the Mings. The whole administration, and, along with it, the finances, were thrown into utter confusion during the period when the Mings were establishing their power in the country. The Mings, following the example of their predecessors, repudiated all

the paper currency that was issued during the reign of the Mongols; for the moment, there was no problem of paper money.

Ming Notes.

The main cause of the fall of the Mongol dynasty was the havoc caused by the irredeemable and depreciated currency, apart from the burden of heavy taxation. The first Ming Emperor who, as Hung Wu, was acclaimed by the people, was welcomed in the hope that he would bring about a better monetary situation. Although at first he repudiated all the paper money that was in circulation he very soon found himself confronted by great financial difficulties and was compelled, for a time at least, to continue with all its evils the currency system of his predecessors. Notes were issued by the Government, while at the same time steps were taken to place the country's finances on a sound basis. In the meanwhile, the trade of China was increasing, and more and more silver was filtering into the country every day. With the help of this adventitious circumstance the credit of the Government was reinstated, and in the course of a single reign the Government was able to resume specie payments—although, however, there was no confidence in paper.

The steps by which the first Emperor of the Mings established confidence in Government currency were rather crude. Having found in 1367 that he could not get on without paper money he decreed that the coins minted at the Government mints and the paper currency or Ming Ch'ao were both to circulate side by side at par; no discrimination was to be shown in favour of one or the other, as both were legal tender. However, no sooner were the

Ch'ao notes issued than they followed in the wake of the previous paper issues; they were heavily discounted and were worth only 5 per cent. of their nominal value—which was no better than the value of the Pao-Ch'ao of Chih-Ta issued in 1310. All the efforts of the Emperor to regulate and maintain the value of paper proved unsuccessful. The people were for long accustomed only to paper money; and as the newly arrived silver led to their looking askance at paper, it was cursed as the cause of the failure of the paper currency and the depreciation of all the wealth they had. The populace became so discontented that the Emperor had to issue a decree prohibiting the use of silver as currency. But the subsequent acts of the Government, both during the reign of the first Emperor as also under the following reigns, did not add to the credit of paper money. The large importation of silver helped gradually to oust paper from its high pedestal, although silver was valued by weight and not as coin. In the following reigns of the Ming dynasty efforts were often made to re-establish paper currency; but practically everyone of them failed.

Paper Money under Manchus.

The Mings gave way to the Manchus, who reigned from 1644 up to 1911. In the reign of the first Emperor, Shun Chih, the finances of the country were extremely bad and the new Government had to adopt measures to regulate it. The Manchus were more of the stamp of the Mongols, being purely war-like, with a minimum of experience of financial affairs. In the reign of Shun Chih, it was thought that the issues of paper money would prove successful again, as during the Mongol

and previous dynasties. At first, about 120,000 kuan were issued each year, but this issue had to be given up as the general feeling, both among the rulers and the ruled, was against the continuance of paper currency. Subsequently the Manchu emperors condemned altogether paper issues; and in 1815 during the reign of Emperor Chia Ching, the minister of state Ts'ai Chih-ting was severely rubuked for advocating the revival of paper money. For a long period after the establishment of Manchu rule, the finances of the country were more or less prosperous, in spite of the peculation that was then in vogue. It was not until the financial straits grew acute on account of the Taiping Rebellion and the general unsatisfactory economic situation, that an attempt was made to resuscitate the issue of paper money. It was during the troubled times of Hien Feng (1851 to 1861) when the issue of token coins commenced, as also the issue of paper money—nominally redeemable but in practice never redeemed—after an interval of practically four centuries and a half. Notes to the value of 1, 3, 5, 10 and 50 taels in silver, as also paper worth 500, 100, 1500 and 2000 in cash were forced into circulation in about 1856. Within five years after such issue the notes depreciated very heavily and circulated at only three per cent. of the face value. The Government was utterly unable to redeem them, and as a matter of fact practically repudiated these notes; the result was that the paper money very soon disappeared from circulation. Since that time until the abdication of the Manchus, the Government had no hand whatsoever in the issue of paper money.

Tung Chih came to the throne in 1862, and during his reign the departure was made

of banks, money changers and private people taking up the issue of paper instruments of credit. Several provincial governments, however, issued notes off and on, but indirectly through the quasi-government banks.

During the first two years of the Republic, both Central and provincial governments issued notes; but since 1914 such paper was being redeemed gradually.

Chapter IV.

EARLY CURRENCY REFORM

Beginning from the reign of Tung Chih the condition of currency in China grew to be more complicated than it had ever been. All the backwash of the previous dynasties collected together in the reign of Tung Chih and in the following two reigns, and contributed to bring the Manchu dynasty to a close. For instance, the very cash on which the whole edifice of China's finance was built presented as many complications as possible. Not only were new coins having several weights and alloys, coined by the several provincial mints, but the old coins were also circulating side by side with the new ones. The cash coins of the Mings were in free circulation in most parts of the country; and in some of the remote sections the coins of the Yuan dynasty were also in vogue. The K'ai Yuan coins which were issued during the reign of the Tangs were by no means rare and formed part of the every-day currency of the people, as they did twelve centuries ago.

The New Paper.

But the most serious aspect of the position of currency during the latter years of the Manchu rule was that relating to the issue of paper money, especially during the last fifty years—mostly by the provincial governments and banks. Ever since the final suppression of the Taiping revolt foreign trade has steadily increased. While the advance in foreign commerce has brought in its wake a good deal that China has to be thankful for, it has

certainly been responsible for difficulties with regard to the regulation of currency. As I have already pointed out in the previous chapter, China has never had enough coins to cope with the volume of foreign trade. The result has been the import of a large amount of foreign coins and dollars, besides a great deal of bullion. Even so, with the progress of years, it was found that trade was advancing so rapidly that the old methods of currency did not fit in with the change in conditions. In Modern European countries the progress of trade has been responsible for the growth of the complicated system of banking, and the latter in its turn has helped largely the advance in trade. Credit, drafts, cheques and clearing houses are a few of the facilities that have followed in the wake of the growth of trade and banking in Europe. On the other hand conditions in China, especially the lack of a suitable unit of coinage besides want of communications, have tended towards retarding the progress of any possible development in banking. It should not be inferred that banking in China is a new development, or the result of foreign intercourse with this country. China has had some sort of banking from time immemorial; but business was restricted almost entirely to loans on mortgages of immovable property or pledges. But foreign intercourse has certainly led to a vast development in banking. The system of issuing drafts as practised now by Chinese banks, was for all practical purposes unknown in this country before the establishment of the hong merchants in Canton. The latest system of balancing accounts instead of the tedious process of dispatching and re-dispatching silver was also due to lessons learned from foreigners. It was, however,

very common among the Chinese, especially before the latter half of the nineteenth century, usually to dispatch silver; and it took a long time before the Chinese traders could be convinced of the advantage of balancing accounts. The Chinese had at no period anything corresponding to the modern bank cheque and it is mainly owing to the fact of their not having a proper comprehension of value of a cheque that their issue of paper money proved to be a fiasco. I will go in detail into the system of banking and all questions connected with it in the later chapters, but the present reference is in connection with their issue of paper notes. Those Chinese banks that issued notes brought about a new problem in currency. It was mainly the banks operated by the provincial authorities that were deluging the country with bank notes. They adopted this way of raising money because it was momentarily cheaper, as also facile. Like Micawber, they thought that something would happen to set their affairs right when the day of reckoning came. Before proceeding to detail the fate of these bank notes, which were at one time an immense problem for the Chinese Government, I must make a brief reference to some of the efforts made to set currency right—especially during the reform wave in the reign of the Emperor Kwang Hsü. It is well known, of course, that the Emperor listened to a group of energetic reformers headed by Kang Yu-wei; the latter projected many comprehensive and radical schemes for the reformation of currency; and the whole country received a great shock by the coup d'etat of 1898, which led to the virtual dethronement of the Emperor Kwang Hsü.

First Proposals.

The suggestions made at that time were just like others made at other periods; they were in the nature of broad generalizations, and proposals were neither consistent with the existing state of affairs nor practicable. Hu Chu-fen, then Mayor of Peking, suggested in 1895 the introduction of a uniform coinage in three metals, gold, silver and copper, and the establishment of a bank of issue under the control of the Board of Revenue, which was to have branch banks in the provinces. The censor named Wang Pen-yuan proposed the immediate coinage of silver to relieve the market stringency caused by the scarcity of copper cash in about 1895. The question of establishing the central mint came to naught, the only result of the proposal being the establishment of several provincial mints. There were numerous proposals of this kind—none of which revealed a thorough understanding of the subject.

Mr. Sheng's Scheme.

The first comprehensive programme of reform was proposed by Sheng Hsuan-huai, or better known as Sheng Kung-pao, then junior secretary in the Foreign Office. Mr. Sheng has shown himself to be a constructive statesman, although during his last period of Office as Minister of Communications he was responsible for the downfall of the Manchu dynasty in 1911. Mr. Sheng's proposal, briefly stated, advocated the adoption of a coinage system based on the Chingping tael, 900 fine. A central mint was to be established at Peking with branches at Canton, Hupeh, Shanghai and Tientsin. Taxes were to be made payable in

the national coin and the use of bullion as currency was to be prohibited. Gold coins and subsidiary silver coins were also arranged to be minted. He proposed the establishment of a bank for foreign trade with a capital of Tls. 5,000,000 to be subscribed entirely by Chinese, the bank to be situated at Shanghai and to be known as the Imperial Chinese Bank of International Commerce. Sheng was, and is still, heavily interested in the China Merchants' Steam Navigation Co.; and he pledged the shareholders to supplying the bank, with one-fifth of its share capital. The bank was to have the right of coinage; the powers and privileges were comprehensive, including the right to coin money, issue notes, handle all Government funds and establish branch banks in the provincial capitals, open ports, in Europe and in America. An Imperial decree was issued on February 26, 1897, sanctioning Sheng's scheme, and giving authority, as soon as the bank was established, to strike 100,000 coins based on the Chingping tael in accordance with his proposal; these coins were to be put into circulation as an experiment; and if successful the bank was to continue and extend the coinage. Although this proposal was sanctioned it was not put into effect, mainly because the Government was heavily embarrassed in other ways. Currency reform was only one of the proposals that was claiming the attention of the Government at the time and, compared with the political and fiscal problems then awaiting solution, it was not half so pressing. The liabilities of the country had increased considerably after the unsuccessful termination of the Chino-Japanese war. The gold price of silver had depreciated considerably, increasing the difficulties of the Government with regard to

the payment of interest and redemption of the gold loans made to pay out the Japanese war indemnity. It was characteristic of the fantastic ideas that were then prevailing that one of the junior secretaries of one of the boards in Peking should advocate in 1897 the adoption of the sovereign as the unit and suggest the prohibition of the exportation of gold from China. Before any definite step could be taken the Boxer outbreak put everything else into the shade, and no steps were taken till the latter part of 1901.

Attempt at Regulation.

A well intentioned edict was issued after the return of the Empress Dowager from Jehol in August 1901. It ordered the closing of the provincial mints, excepting those at Canton and Wuchang, and legalized the circulation of coins issued by these two mints in view of their uniform weight and fineness. These two mints were ordered to supply all the provinces with coins, in exchange for pure silver ingots. It was decreed that thenceforth seventy per cent. of the tribute and taxes were to be made payable in sycee and thirty per cent. in silver dollars issued by these mints—the dollar issued by the mints being worth 72 tael cents. The viceroys of the two provinces concerned were asked to take care to preserve strict uniformity in the weight and fineness of the dollar, and the edict stated that the closing of other mints was to prevent variation in the coinage. The edict, however, was not obeyed, mainly because of the enormous extent of the territory covered and the absence of modern means of transportation. The two mints mentioned in the edict were not big enough to supply China

with the necessary coins and the other mints never ceased their activities. The Central Government was unable to enforce uniform methods of operation and control over the several mints; and as assaying was careless and crude, uniformity in weight and fineness was altogether out of the question.

Fresh Copper Issues.

While the Government was trying to restrict the operation of the several mints, it was confronted by a further difficulty on account of insufficiency of copper coins; the relation between silver and copper was almost abnormal and an edict was issued early in February 1902 authorizing the Yangtsze provinces and those on the sea board to coin the new copper Yuan on the model of those struck at the provincial mint of Kiangsu. These new coins were neat and without a square hole, and naturally the people took to them very rapidly and an enormous amount of Yuans were put into circulation within a few years. The issues of these copper coins were very profitable to the mints; but on the other hand they complicated the currency problem by heavily depreciating in value.

Foreign Influence in Favour of Reform.

The growth of foreign commerce and increase of China's international obligations changed the whole aspect of affairs with regard to reform and emphasised the urgency of currency reform. The nations having trade and political relations with this country found it necessary to protest against the most unsatisfactory state of affairs—although it was

needless to state that the gain in the end, as a result of steps taken in the direction of this reform, was certain to be more favourable to China than to other nations. But there was no doubt that the chaotic condition of money was responsible for keeping down the total of the volume of foreign trade. As the nation having the bulk of the foreign trade with China, Great Britain pointed out this fact in a friendly manner at first. Owing partly to the general distrust of all proposals emanating from foreign nations, as also because the Central Government was never able to exercise its rights, friendly representations on the part of Great Britain, as also other nations, led to no practical result. Great Britain as well as America thought it best to bind China to making some effort to bringing about harmony in currency. The Mackay treaty or what is generally known as the Treaty of Commerce and Navigation between China and Great Britain, signed on September 5, 1902, provided that "China agrees to take the necessary steps to provide a uniform national coinage which shall be legal tender in payment of all duties, taxes and other obligations throughout the Empire by British as well as Chinese subjects." The Treaty of Commerce between the United States and China signed in the following month also contained a provision to that effect.

The Fall in Silver.

The general situation with regard to silver was such at the time as to lead to grave concern about the future, especially in the countries which were on a silver basis. The question of the relative value of gold and silver and the causes that led to the heavy

depreciation of silver, especially since 1890, I will discuss at a later stage—when I formulate my scheme for reform. Suffice it to say at present that the position in 1902 became so acute that China found it imperative to take some steps towards relieving the pressure that was being felt.

A Silver Commission.

When all countries were adopting the gold standard, when even Siam, by a royal decree issued on November 25, 1902, adopted a gold exchange standard, the only two countries that remained silver standard countries were Mexico and China. Even in the silver-using colonies and dependencies of Great Britain and France several commissions were appointed to enquire in detail into the most feasible manner for reforming the currency; and in practically all these places it was arranged to have the gold exchange standard. Thus it remained for Mexico and China to find methods whereby some sort of stability in the rate of exchange could be established, without in any way interfering with the free circulation of silver in their own confines. Mexico proposed to the Government of the United States to arrange for an international inquiry into the silver question. China joined in the request and in the memorandum presented to the United States States Department in 1903 China's concern to establish stability in exchange was evident. As I have pointed out in "Finance in China," China has remained purely a silver standard country in all her internal commerce relations, while practically every foreign country with which she trades has adopted the gold standard. As the exchange between gold and silver

fluctuates, sometimes almost very violently, international trade in China has always been haphazard and attended with great risk. The Chinese memorandum rightly pointed out that the question of exchange concerned China as much as foreign countries. The memorandum stated in part:

"The Government of China does not seek the restoration of the free coinage of silver by either gold or silver-using nations. It is recognised by this Government that bimetallism in the sense of free coinage of both metals is a policy which has been definitely discarded by the leading Powers of Europe and by the United States, and that it would be futile to propose its restoration.

"It is therefore not the expectation nor the wish of this Government that the gold standard countries should take any action tending to impair their monetary systems. It is desired that the government of gold countries having dependencies where silver is used, and the governments of silver countries shall co-operate in forming some plan for establishing a definite relationship between their gold and silver monies, and shall take proper measures to maintain such relationship. One such plan, it is reported, has already been proposed in both houses of the Congress of the United States with reference to the Philippine Islands. It is this and other plans designed to accomplish the same end which the Government of China would be glad to have considered by the United States and other Governments, with a view to the adoption of the best attainable monetary arrangement by those countries which are not prepared under existing conditions to adopt a currency system involving the general use of gold coins."

A Chinese Commission.

In response to the request of China and Mexico a Commission on International Exchange was created by an Act of Congress on March 3, 1903. This Commission included Mr. Jeremiah W. Jenks, a competent authority on financial affairs and one who proposed the first plan of reform—although, however, as I will show later on, his scheme is unfortunately impracticable, ignoring the hard realities of the situation. The object of the Commission was to formulate a definite and feasible policy after consultation with the Governments of Mexico and China, as also the European Governments. Following upon the creation of the Commission of the International Exchange in Washington, China also appointed a Financial Commission to tackle the problem of currency reform in earnest, as also to co-operate with the American Commission. The Imperial edict appointing the Financial Commission was issued on April 22, 1903—the same edict ordering the establishment of a central mint at Tientsin. The edict stated in part:

"It has been a recognized principle that the capability of a nation to exist as such entirely depends upon two things, the proper adjustment of its finance and the employment of competent persons. As the present situation is very critical and the national finances are in great straits, the Government and the people are both suffering from this state of things. There would be no prospect of any improvement in our fiscal policy unless this question were taken up and thoroughly studied in all its bearings, and such measures as are dictated by the necessity of the day were taken. We hereby command Prince Ch'ing and Ch'u

Hung-chi, in conjunction with the Board of Finance, to consider carefully all necessary steps toward improvement in that direction and carry them out with diligence.

"At present the silver coins used in different provinces are all of different designs and quality, and their weights are also not uniform. This state of things entails a great inconvenience to the mercantile class and it is, therefore, very imperative that a uniform device for silver coins should be designed, and a mint should be established in Tientsin for the purpose of such coinage. As soon as a sufficient amount of such coin shall have been turned out and put into circulation, all national revenues, customs dues, etc., shall be collected and all public expenses shall be defrayed in that coin alone—with a view of putting an end altogether to the abuses of exactions for making up alleged insufficiency in weight of silver ingots that are now used. At any rate there will be uniformity so far as the monies received or sent out by the Board of Finance or by various provincial treasuries are concerned. We also command you to make exhaustive investigations in order to frame satisfactory regulations, and submit them to us. In short, this question is of great importance to our Empire, and will be of great benefit, to high and low. You, a Prince and a Minister of the State, are required to carry this out with undaunted courage, unflinching energy and strong determination in order that our currency may be improved and benefits therefrom will be so widespread as to gratify our earnest desire to benefit our people by adopting necessary reforms. Respect this."

To all appearances at least, the Commission took up currency reform in earnest. But the members of the Commission had neither the

special knowledge nor the expert assistance to formulate any useful scheme. Whatever reform was proposed it always carried with it the centralization of power. For centuries past the history of the government in China has constantly been a tussle between the Central and Provincial Governments; especially since the Taiping Rebellion, the differences were growing acute day after day. For one thing Peking was powerless to enforce its full authority, partly because of the extent of the territory and mainly because of the long established tradition of provincial autonomy. For success in currency reform it was most essential that the control of coinage should be vested in a single and central authority. I have already shown how the provinces were continuing independent coinage regardless of the will of the Central Government and the broad interests of the people.

It is not, however, fair to represent the Provincial Governments as having acted against the public interest with a full knowledge of the evil of indiscriminate coinage. For long, public finance in China, whether at the capital or in the provinces, had been very unsatisfactory; it was always a question of trying to make both ends meet. Especially during the last sixty years of Manchu rule, public expenditure had been increasing while public revenue was decreasing. They were enabled to establish mints and when they saw the large profits in the issue of depreciated coinage they believed that the continuance of such a step would relieve the financial pressure to a very large extent. Neither the officials nor the people had a proper comprehension of the currency problem, both in its national and international aspects. The fundamental mistake of the Chinese financial

authorities was their belief in the ability and willingness of the public to take all the coins issued out of the mints—at their face value.

The Central Government sent a special mission headed by Prince Tsai Chen and Na Tung to Japan to attend the Osaka Exposition, and the mission was charged with the special duty of studying the Japanese gold standard system with a view to its introduction into this country. Meanwhile practically all the legations in Europe were instructed to participate in the discussion then being carried on in Europe. The American Commission did not submit its plan to China until early in 1904.

A New Proposal.

In the interim Hu Wei-te, Chinese Minister at St. Petersburg, sent in a memorial to the Throne favouring the adoption of a gold standard with the incidental gold reserve. The following extracts from Hu's memorial is interesting as showing the absurdity of the usual type of proposal then put forward for the reform of currency in China :—

"Although the question of coinage is a nation's private business, modern conditions of finance, both tradal and governmental, are such as to make the interest of different people almost coeval; business in general brings into relief foreign exchange and if the monetary systems of the countries that have relations with each other are not properly regulated it is impossible to prevent loss. A country must have a fixed coinage of gold, silver and copper at a definite and fixed ratio in order to have a proper currency. The coins must be of the same pattern, value and fineness throughout the country, if the best interests of the people are

to be considered and the confidence of foreign nations retained. Such countries as have a gold standard do not, for obvious reasons, suffer any loss in exchange and international intercourse is easily arranged.

"There is a more or less correct estimate of the annual output of gold and there is no fear that the supply would prove insufficient if every country should adopt gold as its standard. As to the supply of silver there is no limit, according to present calculations; the greater the supply the cheaper it has grown, and the present high price of silver indicates more that silver is cheap than that gold is dear. China is using silver as a standard; naturally the Chinese consider that gold is growing dearer every day. Other countries are using gold as a standard; hence their point of view is that silver is growing cheaper every day. A gold standard country is like a man who has accumulated riches to buy grain; if the grain is cheap he profits. A silver standard country is like a farmer who has accumulated his grain and holds it for the rising price; if the price drops he loses. The relation between a silver standard and a gold standard country is parallel to the case of two men making a barter, in which one man's daily increase of loss (on account of his waiting each day for a higher price), is but just the other man's daily increase of gain. Therefore as we use uncoined silver for money we are exactly in the position of the man who wishes to barter grain for gold and it is thus unnecessary to point out that we are the losers. The use of uncoined silver for money is like using uncooked rice for food, or uncut cloth for clothing, for uncoined silver is nothing more than a product of the earth. Other nations

consider silver merely as a commodity and not as money.

"It is already becoming hard for us to meet our obligations and a lapse of time will only make our position worse. At present all European nations use gold; even Asiatic dependencies like Russian Turkestan, India or the Philippines use gold. England is now planning to use gold in Hongkong and Russia has already begun to introduce roubles into Manchuria. Why? Because when a country plans and marks out its frontier she must reckon upon its expenses—for is not the profit of the dependency the profit of the nation as well? It is equally evident that as the value of gold increases that of silver decreases; consequently a nation will spare no efforts to regulate the expenditure in such manner as should prevent a dependency proving a burden to her. Is there another nation as rich as China in land and subjects which would not, in view of the present circumstances, speedily change her policy?

"It is very evident that nations which have the silver standard (with silver constantly depreciating in value) will suffer considerably. The system of coinage as adopted by the nations of the world is regulated on the basis of fixity in value, and although there are exchange charges the market value changes very little; banks have no charge to impose upon the people nor have any foreign merchants an opportunity for swindling. If China has a uniform national coinage she will be in the same position as the foreign nations and there will be little cause for anxiety in the matter of exchange. The three metals, gold, silver, and copper will have a fixed relative value; one silver piece being worth so many copper

coins, and one gold piece being worth so many silver coins. Once fix the relative value, and the result will be that all financial affairs, large or small, will have a large degree of definiteness. Coins can then be used everywhere, far and near, at exactly the same value. Officials and people can then use them without discount for short weight. Business affairs will then be easily managed. Rapacious underlings and dishonest traders will have difficulty and little opportunity to squeeze the public."

Hu Wei-te's Scheme.

After enumerating thus the advantages of the gold standard, Mr. Hu proposed that the coinage unit should be called "yuan" instead of the tael, with the weight of 27.072 grammes and 920 fine. Under such arrangement the coin would be something like the Mexican dollar. With this unit as the basis he proposed the minting of gold and copper coins, besides the yuan and the subsidiary silver coins. His arrangement was to have two gold coins one worth ten silver yuans and the other five silver yuans; there were to be fractional silver coins commencing from half a yuan, besides also silver coins of one and two yuans. The coinage of copper was certainly an essential part of the system. Mr. Hu recommended a total coinage, on the average, of two silver dollars per capita or approximately 800,000,000 yuan. At the beginning only a quarter of this total would be needed. And he also proposed that in 100 yuan there should be one gold coin of ten yuan and one of five yuan value; the remaining eighty-five yuan should be in silver and copper. It was understood, of course, that uniform methods and designs were to be used

in the central and provincial mints. The success of a new system of coinage depended not only upon the minting of large amounts but also in the ability of the government to withdraw the large amount of coins and silver sycee from circulation. Mr. Hu proposed that during the first years the government should give full market value when taking back the old coins. But after ten or more years they ought to be demonetized. A large profit from coinage was also part of the plan of Mr. Hu. As the new yuan was to be 920 fine the remaining 80 parts became the nation's seigniorage. Thus out of a total coinage of 800,000,000 yuan the profit should be 64,000,000 with which the Government could not only pay its debts and cost of coinage, but also form a gold reserve. Such reform of the coinage would involve a large capital outlay, and Mr. Hu proposed the raising of a currency loan. Mr. Hu gave details as regards the easiest manner in which the new coin could be introduced. In order to insure confidence in the new system he proposed to deposit the borrowed gold among the various foreign banks; thereby foreign nations would know that China had gold in reserve.

The scheme above detailed is, to say the least, fantastic. The calculation of the profit on coinage, the amount of coin required and the manner of setting up a gold reserve were all based on data which had no existence. To coin gold and silver in accordance with the fixed ratio and to maintain the silver unit and subsidiary coins at a fixed gold value are as easy in China as for a man to reach Mars by means of a balloon. I will not waste time or space in discussing these proposals. Almost all the proposals of Chinese and Foreigners, up

to the last scheme of Dr. Vissering, are however, modelled on this plan.

The Board of Revenue was evidently impressed by these proposals and agreed to the accumulation of a gold reserve and coinage of gold. The Board brought out some curious arguments; that it was not to the advantage of China to use silver while other countries were using gold and that there was a large hoard of gold among the people and that this gold had hitherto been used solely in the arts because there was no use for it as currency. The Board also proposed that the money paid in for ranks, titles and offices should be paid one half in gold, and that this gold should form the nucleus of the supply for mintage. It is well known, however, that these efforts led to no practical result.

The American Commission's Report.

Early in 1904 Professor Jenks, of the American Commission, presented his proposals to the Chinese Government. The unit was to be a definite value in gold although, however, there was to be no coin of this unit. A standard silver coin was, however, to represent this unit while provision was made also for the free coinage in gold, on demand, of multiples of this unit. The silver coin was to be unlimited legal tender and the intrinsic value of the metal in the coin was to be less than the coin value. The coinage ratio recommended was 32 to 1, which at that time was about 20 per cent. higher than the market ratio. The Government was to control the amount of the issues, so as to keep them within the demands of trade for legal tender money. All payment to the Government was to be made in the new coins and private debts were also to be paid in

them; arrangements were to be made for the sale of drafts at or near par upon gold reserves kept at some convenient foreign centre. By these means it was proposed to maintain the parity of the new unit and its subsidiary coins with the gold standard. Before proceeding with the details and reasons for this scheme of Professor Jenks it is necessary to understand the actual purpose of the Commission. The object and methods of the Commission may be briefly described as follows:

"First: To secure a general view of monetary conditions in China and of the methods of doing business under the various conditions found in different provinces. In the interior many days were passed in localities where no money is employed excepting copper cash and chunks of silver (sycee) which have to be weighed out by scales which each dealer or traveller keeps for the purpose. As opportunity offered, conversations were held, not merely with officials of all ranks but also with bankers, merchants and even with day labourers, local travelling peddlers, roadside workers, etc. In this way a reasonably accurate idea was secured of the methods of conducting business without any generally recognized currency, and the probable ability of the people of all classes to deal with a new and uniform money.

"Second: Conferences with the officials from day to day, between those of high rank, such as viceroys and governors, and those of lesser rank, such as local district magistrates, gave an opportunity to estimate the qualifications of those in whose hands would need to be placed, to a greater or lesser extent, the administration of the new system when it should be adopted.

"Third: The attitude of the people of various classes, officials, businessmen and common people, toward a change in the system and toward the new monetary system suggested, was ascertained.

"Fourth: Opportunity was offered to explain, in part, the main points of the system proposed to the viceroys and other leading men, officials, bankers, merchants, etc., so that thus valuable criticism of the plans from the point of view of these familiar with local conditions was secured, and in many cases opportunity was offered to remove from the minds of those who did not understand the purpose of the invitation of the Chinese Government or its attitude toward the United States in this matter, the natural suspicion regarding the motive of the United States in undertaking this work; and, furthermore, objections which would occur to those not familiar with the administrations of currency systems, were overcome."

A considerable gold reserve was the fundamental of the proposed reform, even to maintain parity of the silver coins; a foreign loan was therefore necessary to obtain this reserve. As in every other scheme proposed for the adoption of the gold standard Mr. Jenks laid special emphasis on high seigniorage profits from the coinage of the silver standard coins and fractional pieces going to strengthen the gold reserve.

It is notorious that along with every scheme for the adoption of the gold standard the suggestion for a formation of a central bank has been consistently advocated.. I believe that the reform of currency and banking in China should be dealt with separately, and on their own respective merits —although it is beyond question that these

two are very much inter-related. The establishment of the state bank has been brought in by Professor Jenks, as by other reformers, because of the constant necessity of replenishing reserves, once the gold standard was adopted. Professor Jenks began with the premise that all the seigniorage profits from coinage would go to strengthen the reserves. But these reserves would constantly be depleted by the sale of drafts; hence it was suggested that the comptroller was to honour silver drafts drawn by the agents of the Treasury abroad, in exchange for gold. Why? Because once gold was adopted as the standard, it was necessary that the money received in exchange for foreign drafts was not to be re-issued but held in the vaults. The resulting contraction of the currency would facilitate the shipping of merchandise with a view to meeting foreign obligations; thus double advantage would be secured of not only encouraging exports, but also keeping in circulation the money which was legal tender and the intrinsic value of which would have increased. But the convenience of businessmen was also to be considered. It would certainly be more profitable to them to exchange gold for the legal tender silver coins, at the government bureau and thus obtain the money needed to meet their obligations in China; there was also an alternative course of purchasing silver drafts from agents of the Treasury abroad. It was here that the advantages of the establishment of a central bank came in; mere fixity of currency was of no value unless there was a certain amount of elasticity in it. The central bank was to bring this about by the issue of convertible note currency.

Mr. Jenks' Scheme.

Mr. Jenks met the argument that silver should continue the standard for a while by the statement that during the interim, before the national currency was put on the gold basis, there would be a great disturbance of business. The first effect of such a situation would be to increase the gold value of silver because of the necessity to restrict the fluctuation in the gold value of silver coins. Any other method but that of adopting gold at once, Mr. Jenks believed, would be followed by a period of unsettled business conditions. It would be advantageous for my readers to learn Mr. Jenks' plan, and I give below his own summary of it:

"1. The Chinese Imperial Government promptly to take effective steps, satisfactory to the majority of the Indemnity Treaty Powers, to establish a general monetary system consisting chiefly of silver coins with a fixed gold value.

"2. In the establishment and management China was to invite and employ acceptable foreign assistance.

"3. In pursuance of this plan, the Chinese Government to appoint a foreign comptroller of the currency who shall have general charge of the system for China; he to have acceptable associates in charge of the mint or of such work as he may prescribe.

"4. The comptroller to make monthly reports in detail of the condition of the currency, including amount in circulation, loans, drafts and foreign credits, etc. His accounts, but not those of the general Government, to be open at reasonable times to inspection by accredited representatives of the Powers interested in the indemnity,

provided the Chinese Government judges that such a provision would be wise in order to secure confidence in the system. Such representatives, as also the associate comptrollers, to have the right of suggestion and recommendation.

"5. The Chinese Government to adopt a standard unit of value. The unit to consist of . . . . . . grains of gold and to be worth presumably, approximately, the gold value of a tael, or somewhat more than a Mexican dollar. Provision to be made for the free coinage of suitable pieces, multiples of this unit, 5, 10, and 20, on demand, for a reasonable coinage charge. Eventually some to be coined on Government account.

"6. China to coin as rapidly as possible . . . . . silver coins, with an appropriate device, about the size of a Mexican dollar, for circulation in the country. These to be maintained at par with a standard gold unit at a ratio of about 32 to 1. More to be coined thereafter, according to needs, as indicated by provisions following. Subsidiary and minor coins, silver, nickel and copper, of suitable weight and value to be provided.

"7. Both the gold and silver coins to be receivable at par in payment of all obligations due to the Chinese Imperial Government in any of the provinces. When such obligations have been made in silver, the new coins may be tendered instead at their coin value.

"8. The Government at its discretion, in conjunction with the viceroys, from time to time to declare, by proclamation, in the various provinces the new coins legal tender for debts incurred after the date fixed in the proclamation. Previous debts to be paid as contracted.

"9. For the maintenance of the parity of the silver coins, the Chinese Government to open credit accounts in London and other commercial centres against which it may draw gold bills at a fixed rate, somewhat above the usual banking rate. For example, if the usual banking rate on London under the system, were about one of the new coins for two shillings, the Government might sell if the rate rose to 1.02 of the new coins for two shillings. Such drafts to be made only under the direction of the comptroller of the currency, but to be made on demand for all depositors of the new silver coins in sums of not less than, say, Tls. 10,000.

"10. Should it be necessary to make the loan for the establishment of a general monetary system with adequate exchange funds, it to be secured by sources of revenue sufficient to yield an amount which will provide for the needed interest and sinking fund, such revenues to be managed in a manner satisfactory to the parties interested.

"11. The seigniorage profit from coinage to be kept as a separate fund. Whenever Tls. 500,000 shall have been accumulated, it to be placed as a gold deposit with the several foreign depositories in proportion to the drafts made upon them. This process to be continued till at least . . . . . taels worth shall be in the gold fund on deposit.

"12. For replenishing the gold fund after its reduction by drafts, the comptroller to honour silver drafts drawn by foreign agents of the Treasury in exchange for gold, at rates fixed by the comptroller.

"13. Provision to be made for a banking law under which bank notes kept at par with the legal-tender currency may be issued by

an Imperial bank or by other responsible banks under the supervision of the comptroller.

"14. As rapidly as is practicable the new currency to be introduced into the various provinces, the comptroller making use of the local governments, banks, business houses, and such other agencies as are best suited to the purpose.

"15. Within five years the new system to be introduced into all the treaty ports and as far as possible elsewhere, and all Customs duties to be collected in terms of the new currency. Local taxes to be collected in the new currency as fast as it is adopted in the provinces, and provision also to be made for the keeping of the tax accounts under the new system.

"16. The new system to be put into effect when . . . . of the new coins are ready for circulation.

"17. The comptroller and the representatives of the Powers to be authorised to recommend economic reforms to the Imperial Government."

The advantages of this new monetary system for China were represented to be five-fold. First of all, it would bring about a fixed rate of exchange, would eliminate the element of risk and uncertainty from international commerce, and thus bring about a large increase in the volume of China's foreign trade. The finance of the Government would also be more certain and less embarrassing than when the value of the tael was fluctuating. The second advantage was that during the first four or five years of the introduction of the new currency, China would make a profit of about $50,000,000 in coinage. It was stated that because of the uncertainty as regards

currency, foreign capital was fighting shy of China—except that of speculators and others who had special schemes. Therefore, the third advantage was that China would, under the new conditions, obtain enough capital to develop her resources at lower rates of interest. Not only would China be enabled to borrow cheaply, but it would also be possible that some of the obligations could be met by loans bearing a lower rate of interest. A considerable saving in interest, sufficient to pay interest on the new loan for currency proper, was stated to be the fourth advantage. The last, but not the least, benefit on account of the adoption of the gold standard, it was emphasized, was the maintenance of the value of the taxes collected. Under the old conditions the gold value of Chinese revenue kept reducing on account of the decline in the gold value of silver, thus making it increasingly difficult for China to meet her foreign obligations.

Chang's Opposition.

Although the advantages of the gold standard system were enumerated in detail by Professor Jenks, as also the method by which introduction of the new system was to be facilitated, the authorities were certainly not enamoured of the proposal. The Government had not made up its mind as to what to do with the suggestion when it received a memorial from Viceroy Chang Chih-tung opposing completely the gold standard plan. Viceroy Chang's memorial pointed out the inadvisability of employing a foreign comptroller, the impracticability of the gold standard system for China and the benefits of a silver standard for a new uniform coinage. Some of the objections of

Viceroy Chang were forceful and others showed insufficient knowledge of currency and finance. But on the whole, he showed a much better appreciation of the interests and possibilities of his country with regard to currency than Professor Jenks, or any other foreign financial expert, who has so far proposed a scheme for reform. The following criticism of the plan regarding the fixing the ratio of silver to gold under the American plan showed Chang's want of knowledge of modern economic concepts:

"What your minister cannot understand is that in the proposed new silver coinage the gold price of 32 to 1 is arbitrarily fixed, alleging that profits amounting to about 20 per cent. would thereby accrue to the Government in the form of seigniorage. If the gold price of 32 to 1 could be made to prevail both in and out of China, and if likewise China could reckon at that rate in remitting foreign indemnities, payable in silver, then it would surely be a proposition fair to all parties. But according to what the said Commissioner has decided, the regulations concerning these silver coins minted at the ratio of 32 to 1 could apply only to places within the confines of the Chinese Empire: and in buying drafts or purchasing gold from abroad the value of the coin must depend upon the decision of the comptroller who would accept the rate current on the day when the actual purchases were made. In the memorandum submitted it was expressly stated that these silver coins are to pass at the ratio of 32 to 1 in China, but if payments abroad are made with these coins they must be valued according to their bullion contents, that is, at the ratio of 40 to 1. This regulation would therefore compel the Chinese people to pay over to the Government a tael

gold, worth 40 taels in silver, as the equivalent of 32 taels in silver, while foreigners upon entering Chinese territory could with 32 taels silver, get the equivalent purchasing power of one tael gold. Even with Chinese silver to buy drafts or to pay for foreign gold, it would be necessary to give 40 taels silver in order to secure 1 tael gold."

Chang's argument was certainly not based on any sound economic theory; but his viewpoint was that of the Chinese people, whose assent was necessary to introduce any system of financial reform. He mistook Mr. Jenks' proposal as an effort to fix the gold price of silver bullion or the silver price of gold, which is an act which no Government or even a number of Governments could ever succeed in accomplishing.

Chang's Arguments for Silver.

Many of the arguments which Viceroy Chang advanced against the adoption of the gold standard were unsound from a purely theoretical standpoint. Like many other Chinese statesmen he had neither the experience nor the knowledge necessary to discuss financial questions in general. But he had sufficient common sense and the experience of his own people to understand what was good or otherwise for China. He maintained, and rightly, that European countries used gold because of their high commercial and industrial development, high wages and high prices. The adoption of a standard must depend on the economic condition of a country. Describing the state of affairs, Chang made the following very apposite statement:

"The people are poor, products of labour cheap, labour and personal service unremunera-

tive, the common people economical in their way of living. Therefore the daily expenditures are usually reckoned in terms of the cash. A poor man limits his daily expenses to not over 20 cash, those of the well-to-do classes to not more than 60/70 cash. In trade centres along the sea coast and the Yangtsze River gold and silver, bullion or coins, circulate side by side with the cash; but goods from the interior, whether wholesale or retail, are always valued in terms of the cash. Although in wholesale transactions silver bullion is also used, the cash is always taken as the standard coin. Generally speaking, in the cities of the Provinces of Kwangtung, Kwangsi, Yunnan, Kiangsi, Chêkiang and Kiangsu, 70/80 per cent. of the business is done in silver currency, the remaining 20/30 per cent. in the copper cash; in the trade centres along the banks of the upper Yangtsze business is done, partly in silver and partly in cash; in the interior towns on both sides of the Yangtsze the proportions are 10 per cent. in silver and 90 per cent. in cash; in the provinces along the Huang River 98/99 per cent. is cash and the rest is in silver. Taking the country as a whole, the copper-using area is ten times as much as the silver using area. Hence it is easily seen that China is actually a copper using country, although foreigners consider it only in the light of a silver-using country. How much more different, therefore, is China from foreign countries where it is found suitable to use gold, on account of the enormous wealth and the high level of prices prevailing in these countries."

Chang therefore was against the introduction of gold, in any form, as the national currency. As a far-seeing statesman, he was well aware of the need for change. He advocated the use

of silver as the standard. He adduced a very important argument in favour of the adoption of silver. He said that if gold became dear and silver cheap, it would be a great encouragement to the development of export trade; consequently domestic industry would spring up in course of time and China would become economically independent.

Chang followed his plea for the silver standard by another memorial proposing the introduction of a uniform national silver coinage based on the weight of a tael. Chang was Viceroy of the Hukwang at the time, and he suggested that an experiment be made in Wuchang first, and if successful the scheme be adopted by the whole country. Chang proposed the tael coinage; there was a strong body of opinion against the tael and in favour of the dollar, which was 72 by 100 of the weight of the tael. Chang argued that the adoption of the dollar as a unit was not feasible because the adjustment, especially in the case of the land and grain commutation, where the fractions are carried to a millionth part of a tael, * would become exceedingly difficult. Imperial sanction was accorded to Viceroy Chang's proposal and the Government was awaiting the result of the experiment at Wuchang.

New Copper Coinage.

In the meanwhile, currency conditions, as the result of the addition of the new copper coins, were steadily growing from bad to worse. As it was easy to counterfeit the old cash, and as the country was being flooded with suprious cash coins, a censor proposed in 1897

* "Financial Capacity of China" by E. H. Parker.

to coin the cash by modern methods. The Government in China is a slow moving machinery. It was not until February 2, 1902 that the following Imperial edict with regard to the new copper coin was issued :—

"For some time past the local currency in the various provinces has been insufficient for use. Formerly the two provinces of Fukhien and Kwangtung minted some large, round copper coins of excellent workmanship, that was said by the people, after they were put into circulation, to be convenient. The Province of Kiangsu had now taken up a similar plan and finds it very convenient and beneficial as also a check upon the evil practice of illicit melting and illicit coining. Let the viceroys and governors of the provinces along the Yangtsze River and the sea coast provide the necessary funds and adopt the aforesaid plan, and at once mint these coins in addition to others coined by them, so that they may be put into general circulation. The legal cash of the capital also ought to be similar; therefore let the provinces of Fukhien, Kwangtung and Kiangsu forward at once to the Board of Revenue several hundred thousands each of the new copper coins minted by them, so that the said Board may pay them out and get them into use—which we hope will be beneficial and convenient to the people and prove a help to the currency."

As I pointed out in the last chapter, these new copper coins were only token coins; because they weighed only 7.5 grams, containing 95 per cent. copper and 5 per cent. zinc, and the actual values of a silver tael and dollar were then equivalent to 228 and 169 pieces of copper respectively. These cents or ten-cash pieces at first circulated at the rate of a

hundred for a dollar; people took to them readily, these coins being extremely popular. Unfortunately the authorities misunderstood the significance of such popularity; and, owing to the large profit in mintage, utilized the coinage of copper coins as a means of raising revenue. Enormous quantities of copper were imported and turned into cents. The total issue of copper coins rose from 1,693,700,000 pieces in 1904 to 7,500,000,000 in the following year; at the close of 1905 there were 16 copper mints and 846 coinage presses with a capacity of sixteen billion coins a year. The import of copper, which rarely used to amount to over a million taels, increased to nearly twenty-two million taels in 1907.

Thus, an action which was intended to simplify currency only tended to make the problem more complex. The provincial mints under the control of the respective authorities had no means of controling distribution, owing partly to the insufficiency of communication, and partly to the incorrect understanding of their duties by the officials in charge. The authorities thought that they had performed their duty to the fullest extent as soon as they had finished coining. The result was that speculation which has been the bane of this country came to the forefront. The old cash was disappearing from the principal city markets, the better ones being melted down—while the inferior ones were being driven into the surrounding country. The depreciation of copper in terms of silver was general, and in Shanghai alone the copper cent depreciated 22 per cent. in 1905. The Government was gravely concerned about the depreciation of copper and in an edict issued on August 22, 1905, we find the following:

"Recently there has been a minting of the copper coins because of the shortage of the ordinary cash. The circulation of these has found favour among the people and the profit from minting them has been very great. The various provinces have vied with one another in asking permission to establish mints and there has been no end of confusion as a result. Because of this competition, too, recently the prices of machinery, copper and lead have risen and the value of copper coins has depreciated. If the provincial mints are to go on, each coining for its own use, each having its own way, perhaps prices will still further rise and the value of the cash still further depreciate; after a few years, when the demand for the new coins is non-existent, their circulation will not be easy and there will be the gradual loss on the capital invested. Moreover in everyone of the new commercial treaties there is an article providing for the adoption of a uniform currency; but if each province is to be allowed to have its own coinage we will probably be far from fulfilling our promise and intention in having a uniform currency."

Regulations for Coinage.

If the Government was wise and if the statesmen at Peking were properly advised they would have put an end to further coinage of the ten-cash pieces altogether; unfortunately the ministers listened to importunities of the provincial authorities who were then making a profit out of the coinage, and declared that the provinces were not yet supplied with a sufficient amount of these coins; therefore it was decided that local coinage should be

allowed to continue, but that such should conform to certain regulations. There were ten regulations for the reform and re-adjustment of coinage and currency. Before proceeding with the details of the regulations, the following from the memorial relating to the condition of the provincial coinage may not be uninteresting:

"The first coinage of silver in China was undertaken in Kwangtung with the object of supplanting the foreign dollar and making good the deficiency in the volume of the copper cash. Afterwards the provinces of Hupeh, Kiangsu, Chihli, Chêkiang, Anhui, Mukden and Kirin all bought minting machinery and proceeded to turn out coins; but the coins minted at the several places differed considerably in weight and fineness, and even coins from the same mint lacked uniformity, so much so that people began to discriminate. The coins of one province were not accepted in another and thus they were less satisfactory than the Mexican dollar, which circulated generally throughout the country."

To remedy the chaotic situation a proposal was made that the provincial mints should no longer be allowed to operate. It was, however, thought impracticable that all of the coins needed for the country could be got out of one central mint. Owing to the vast extent of territory the ministers recommended that mints should be retained at Tientsin, Nanking, Wuchang and Canton, especially for the coinage of silver. In a memorial submitted to the Throne some general principles as to the future of currency were enunciated. It is extremely curious that, in spite of the fact that the memorialists were not unaware of the complications arising out of the coinage as it then existed, they should have persisted in proposing coinage in

three metals—gold, silver and copper. They proposed that excepting such as were in operation there were to be no more new copper mints. Minting of copper coins was to be in accordance with a set of uniform rules, which provided that the coins were to be 95 per cent. pure copper and 5 per cent. zinc. The coins were to be of the following denominations and proportions: 10-cash pieces 50 per cent. of the total, 5-cash pieces 20 per cent. of the total, 2-cash pieces 20 per cent. of the total and the remaining 10 per cent. to be 20-cash pieces. The weights of the coins were: 20-cash pieces 4 mace kup'ing, 10-cash pieces 2 mace, 5-cash pieces 1 mace and 2-cash pieces 4 candareens. While seeking to provide for a national coinage, the memorialists stultified their own position, by providing that inter-provincial movement of copper coins in large quantities was not to be permitted.

The Kup'ing Tael as the Unit.

The proposal came to naught as the Government was not prepared to accept the gold standard and the Board was guided largely by the strong expressions of opinions of Chang Chih-tung, and Yuan Shih-kai, who was then Viceroy of Chihli. The Government decided in favour of having the Treasury or the Kup'ing tael as the unit. A special edict adopting the Kup'ing tael as a standard was issued on November 19, 1905 and the regulations of the edict may be briefly summed up as follows:

"The new silver currency should be purer in quality than the dollar hitherto coined in various provinces and the standard unit of value must be heavier, in order that it

may serve as a national coin. The purest silver in circulation in China to-day is shown by chemical analysis to contain not more than 98 or 99 per cent. of pure silver; but a reduction of 2 to 3 per cent. should be allowed while minting the new coins, in order to cover the cost of coinage. It is proposed, therefore, to coin a new tael of 9 mace 6 candareens of pure silver mixed with 1 mace weight of pure copper; this coin will be equivalent to 1 Kup'ing tael, full touch.

"The fractional currency shall consist of (1) a piece containing 4 mace 8 candareens weight of Kup'ing silver mixed with 5 candareens' weight of pure copper—which shall be declared equivalent of 5 mace Kup'ing silver, full touch; (2) A piece of 1 mace 7 candareens' weight of Kup'ing silver mixed with 3 candareens of pure copper, to be the equivalent of 2 mace Kup'ing silver, full touch; and (3) a piece of the weight of 8 candareens 5 li of pure Kup'ing silver mixed with 1 candareen 5 li of pure copper, which will be the smallest silver piece, and the equivalent to 1 mace Kup'ing silver, full touch. It is also decided that in every 10 pieces minted 4 shall be of 1 tael value, 2 of the denomination of 5 mace, 2 of 2 mace and 2 of 1 mace. But if there should be a demand for a larger proportion of any particular denomination of coins, orders shall be issued to make a careful investigation as to the real amount in circulation and report upon the matter to the Financial Commission and the Board of Revenue; only upon their consent could the proportion be changed at any mint. The coins of the central and branch mints must be uniform in weight and in fineness; assay and inspection to be made according to the rules for the regulation of

coinage already submitted by them and approved by the Throne.

"The 1 tael coin shall be equal to 2 five-mace coins or 10 one-mace coins. The subsidiary coins shall exchange among themselves at the same rate and under no circumstances may a discount be charged in all monetary transactions, public or private; any disobedience will be punished according to law.

"The 1 tael coin being the standard monetary unit there shall be no limit to its circulation. The 5 mace and other fractional silver pieces shall be legal tender in every transaction to the amount of 10 taels, i.e., to the value of 10 of the 1 tael coins. They must not be used for payment in full amounts for over 10 taels and if offered under such condition they may be refused. The rate of exchange between the copper coins and the silver coins and the limit of circulation of the former will be determined after the provincial authorities have complied with the regulations already submitted, by which they are required to investigate and report to the Board of Revenue the facts relating to the circulation of copper coins.

"The Board of Revenue has been ordered to coin silver and the central mint will coin several million pieces and send them to the Bank; the Board of Revenue shall also send dies to the provincial mints of Chihli, Kiangsu, Hupeh and Kwangtung, which shall at the same time mint several million pieces, whereupon the Bank of the Board of Revenue shall print paper money to the full amount of the silver coins minted and fix the day upon which it shall be put into circulation. After its issue the Treasury of the Board of Revenue and the treasury of the provinces mentioned

shall first receive it in a fixed proportion and thereafter all the provinces, the railways, the China Merchants' Steam Navigation Co., and the Telegraph Administration shall receive it in the same proportion. There must be no discrimination against it by the said official companies on the ground that it is not issued in their provinces. The method of arranging the proportions shall follow the regulation of the Bank of the Board of Revenue; for the present the proportion of silver may be paid in lump silver or old dollars. But when there is a sufficient amount of new coins the proportion payable in new coins may be increased until finally all silver payments may be required to be made exclusively in the new silver coins.

"All provincial taxes levied in Kup'ing taels shall be payable in the same amount of the new tael coins. The collectors shall have salaries definitely fixed and they are not to be allowed to make their living by charges for exchange, etc., as heretofore. Apart from the legal charge of meltage no other charges shall be added to the assaying charges. All other monies heretofore collected or paid in taels of the existing scales shall be converted according to the value of the tael used, into their equivalent in Kup'ing taels of full touch. And the conversions having once been made this sum shall for ever hereafter be receivable and payable in that amount of the new 1 tael coins—no variation from the rule being allowed.

"As China is now entering into new commercial treaties with the various foreign powers, which provide for the adoption of a uniform national coinage, which the merchants of the foreign nationalities residing in China shall use, the Board of Foreign Affairs will be instructed, when the new coins are issued, to send dispatches

to the various foreign ministers and consuls at the various treaty ports. Notification must also be made to the commissioners of Customs that they shall hereafter use the new coins uniformly. Custom duties have heretofore been levied and collected in Haikwan taels; orders must now be issued to the commissioners of Customs hereafter, in accordance with the provision of commercial treaties, to convert duties levied in Haikwan taels into their equivalent in Kup'ing taels and collect accordingly.

"On the day when the new coins are put into circulation the viceroys and governors of the various provinces must issue instructions to the local authorities to put out proclamations informing the merchants and all people that whatever coins they may have, old or new, and whatever commercial transactions may take place in the markets, the original amount, according to the value of the tael in which they may be reckoned, must be converted to their equivalent in Kup'ing taels of full touch and paid in that amount of new silver coins —such payment being absolutely valid and not to be refused.

"As all viceroys, governors and other officials, merchants, soldiers and common people in all the provinces must use the new silver coins, all may send their silver to be minted; the central mint and the branch mints at Tientsin, Nanking, Wuchang and Canton will coin it for them. Every tael of Kup'ing silver of full touch will be refined to pure silver 985 fine, or finer; in return for it they will receive one of the new tael coins. Fractional coins of the denominations of 5 mace, 2 mace and 1 mace will also be minted for them in the proportion set forth above. The excess in the fineness of the silver will pay

the cost of the mintage. Silver of inferior quality, foreign silver coins and the silver dollars heretofore minted in the various provinces may also be sent in to be re-minted, the amount of the new coins given in exchange being determined by the amount of pure silver contained in the coins thus given; that is, their value will be determined in Kup'ing taels of full touch and new coins issued accordingly.

"When the new coins are first issued and the people are unfamilar with them, there will almost surely be attempts made among the merchants to discriminate against, and discount, them. The Bank of the Board of Revenue, the Customs banks in the various provinces and other official banks and cash shops must be charged with the responsibility of seeing that every one bringing the new coins to exchange for paper money, bullion or copper coins, or desiring to exchange paper money, silver bullion or copper coins for the new silver coins, shall receive just treatment on the basis of one Kup'ing tael being the equivalent of one tael in the new coinage."

This act, which was promulgated with a fanfare of trumpets was never put into effect, and the question of the reform of currency had again to be reconsidered; every question including that of the standard, the size of the silver unit and the treatment of the copper currency was again reopened. The people who favoured the gold standard did not give up hope, but for the moment the disagreement was over the size of the unit and the fineness of the silver in the unit. Even among those who favoured the silver standard the leaning was toward having the dollar which was 72/100 of the tael as the unit of coinage—the principal

consideration being that the dollar was less heavy and would be found most suitable to fulfill the purpose of supplanting the Mexican dollar, whose circulation was extending all over the country. There was further the question of the suitability of the standard coin to the economic condition of the country; considered in this light the dollar or even a coin smaller than the dollar should certainly be more acceptable than the tael, which should have proved altogether too heavy for ordinary purposes. The fineness of silver in the standard coin was also one which led to considerable discussion. The general idea was that there should be free coinage of the standard, either without charge or with a small charge to cover the cost of coining and expense of assaying. The latest regulation provided for a coin 960 fine, but as Kup'ing standard was 987.5 fine the confidence of the public in the coin could not be complete. The high seigniorage would lead to counterfeiting, although, of course, it would be extremely difficult, when the coins were turned out of a mint equipped with modern machinery. There was also another point which was of vital importance to the Government; the currency scheme as a rule dangled before the eyes of the Government the high profit arising out of the mintage of the standard and subsidiary coins; but when it was found that the high profit carried with it other dangers, the result was the indefinite postponement of a definite action with regard to currency reform.

Why Reform was Shelved.

There were other reasons for the importance of the early reform of currency not being apparent to the Government. Owing to the

adventitious causes, mainly due to the large purchase of silver for coinage in India, the gold price of silver was then mounting up by leaps and bounds. The anxiety of the Government up to 1905 was mainly due to the drop in silver and the consequent fall in exchange; when after 1905 exchange improved to over three shillings per Shanghai tael the Government found it easier to meet gold obligations, due on account of the Boxer Indemnity and several other loans. Silver began to rise at the close of 1904 and when in November 1906 silver reached the level of 1893, the Chinese Government was simply jubilant. The Governments in the Philippine Islands, Straits Settlements, Siam and Mexico had to take steps to protect their currency positions. In the Philippines the silver peso threatened to exceed its face value and in 1905 the Government prohibited the export of Philippine currency. By 1906 the ratio of the value of the peso coins to the peso bullion was 1 to 1.11; and the Government had to decrease the silver in the coin and to issue new pesos and subsidiary coins. In the Straits Settlements the weight of the dollar was reduced from 26.957 grammes to 20.2172 grammes. In Siam the fineness and weight of the silver tical were maintained, but the gold value was increased from one shilling and four pence to eighteen pence. Mexico took the opportunity of changing into a sort of gold standard, commonly known as the limping standard. During 1906 and 1907 Mexico exported silver coins to a total of $85,956,202 sold as bullion at a premium, and coined gold to the value of $71,646,500—all the gold going chiefly into the vaults of the banks. This action of Mexico brought into prominence the limping or gold exchange standard. This gold exchange standard

has played a prominent part in the currency questions of India, the Dutch Indies, the Straits Settlement and Siam. As Dr. Vissering has proposed the gold exchange standard for China, I will discuss this system when dealing with Dr. Vissering's scheme.

Gold Exchange Standard.

As a matter of fact a sort of a gold exchange standard already found favour with the Board of Finance in 1906; and the Board proposed to introduce new national silver coins on the silvėr basis to replace old coin and bullion currency. The next step was to extend the bank note circulation to replace the new standard coins—the coins so withdrawn to be held as a trust fund or sold for gold. The third step was to be taken after the note circulation became universal, by declaring free coinage of gold at the market ratio of a specified period and thus converting silver notes into gold. If the gold reserve proved insufficient at any time the notes were to be redeemable in silver bullion at its market value in gold. This proposal of the Board of Finance was impracticable, in view of the fact that the success of this scheme depended upon the accumulation of a sufficient stock of gold and the time to get that would at least be about seven to ten years; further, the bank note circulation was preferable to that of Government currency notes and China was without a sound system of banking. The scheme was consequently dropped.

The next attempt at currency reform was made in an edict issued on October 5, 1908 in response to a memorial of the newly constituted advisory council; the memorial mentioned that

the Government had decided upon a silver standard; and on a poll being taken of provincial opinion, eleven provinces were found to be in favour of the tael unit while seven were for the dollar. The ministers accepted that the tael coin would be heavy, but the situation could be remedied by the coining in large amounts of the half-tael or 5-mace pieces, which were to be unlimited legal tender along with the standard tael. They proposed that the tael and the half-tael were to be 980 fine and the subsidiary coins of 1 mace and 5 candareens to be 880 fine—the profit from the latter going towards the expenses of minting all the coins. Even after this edict was issued the only step taken toward currency reform was the establishment of a bureau of currency reform; this bureau conducted extensive inquiries in all parts of the country with regard to the standard size of the silver, the fineness of silver in the coins, subsidiary coinage and the treatment of existing copper currency.

Output of Copper Coins.

In the meanwhile the position of copper was in no way improving. By an edict issued on December 7, 1905, the operation of the copper mints was suspended for three months, but very soon minting was resumed under the nominal control of the Board of Finance. In 1905 there were sixteen copper mints and 846 coinage presses, the capacity of which was 16 billion coins a year. The provincial Governments continued to view the issue of copper coins as the easiest means of raising revenue; hence the output was not regulated by the demand —the result being depreciation of the cash with every addition to the existing issues. An

authority put the outputs for 1904, 1905, 1906, 1907 and 1908 at 1,693,700,000, 7,500,000,000, 1,709,384,000, 2,851,200,000 and 1,428,000,000 pieces respectively. There is no statistics of the total in 1909; but it is known that the mint at Mukden issued 23,609,267 pieces of 10 and 20 cash, and the Tientsin mint issued a total of 138,387,500 20- 10- 5- and 2-cash pieces. In 1910 the estimated value in silver of the total copper issue was about Tls. 100,000,000.

The Dollar as the Unit.

In 1910, however, a proper act to deal with currency was issued, Imperial sanction having been given to it in May 24 of the same year. Under this act the unit was to be the dollar and the coinage was to be in silver, nickel and copper. The silver coins were $1, 50 cents, 25 cents and 10 cents, besides one nickel coin of 5 cents and copper coins of 2 cents, 1 cent, 5 mill and 1 mill. The dollar was to be the standard and all the rest subsidiary coins—$1 will be equal to 10 dimes; 1 dime 10 cents, 1 cent 10 mills—although it was not then proposed to coin 1-cent copper pieces in order that they might not be confounded with the 10-cash pieces already in circulation. The dollar was to weigh 72 by 100 of the Kup'ing tael, 900 fine—amounting in value to 648/1000 of one tael silver; the 50-cent piece was to weigh 36/100 of a Kup'ing tael, 800 fine, amounting in value to 288/1000 of one tael silver; the 25-cent piece was to weigh 18/100, 800 fine, amounting in value to 144/1,000 of one tael silver; the 10-cent piece was to weigh 864/10,000 of the Kup'ing tael, 650 fine, and amounting in value to 5,616/100,000 of one tael silver. In the above, the Kup'ing tael was

reckoned as 37.301 grammes of silver, while the silver referred to as the tael was pure silver. The edict proposed that subsidiary coins may not be offered in excess of $5 worth in any single payment; the nickel and the copper coins may not be offered in excess of half a dollar's worth in any single payment. The limit of the amount of coinage of the subsidiary coins was to be fixed by the Board of Finance, and the Ta Ching Bank was to have sole control of all matters connected with exchange of coins, old and new. The Government and the Ta Ching Bank were to take steps to withdraw all the old coins at the market rate to be reminted into new coins, and the Board of Finance was to fix a time limit for exchange; after this period the mint and the Ta Ching Bank would only exchange the old coins as silver bullion. In order to unify currency, all accounts and public documents would first use the new monetary denominations. Within the period of a year all official receipts and disbursements regularly made in copper cash or silver was to be reckoned in Treasury taels and thence converted into national dollars—the same rule to apply where silver or other coins had hitherto been used. This regulation was to apply to all Customs, postal, telegraph, steamer and railway accounts. Private debts should also be finally reckoned in the national coinage. From the date when the regulation received the Imperial sanction all mintage of large and small silver and copper coins of the provinces should cease.

Retirement of Old Coins.

The question now was, how to retire the old silver and copper coins that were then circulating. The total output of silver dollars

from the provincial mints was estimated at \$40,000,000 and the number of fractional silver coins, practically all 10 and 20 cents, was estimated at 1,400,000,000; to retire them by exchange would cost at least 20,000,000 new dollars to cover losses in exchange, cost of transport, refining, touch and loss of interest. The Government was naturally both unable and unwilling to lose; so it proposed that the old silver coins, including subsidiary coins, should circulate for a time at their market value, along with the new coins. The process of redemption was to be gradual and at market rates; and when sufficient numbers of the new coins had been issued, the circulation of the old ones was to be stopped and they were to be exchanged for the new coins on the basis of the bullion value.

Even more difficult than the problem of silver coins was that of the copper issues, which in 1910 were estimated to be worth Tls. 100,000,000. After considering several plans, the Government decided to permit the circulation of the existing copper coins for a time, especially while the new coins were being introduced. The provincial authorities were ordered to inform the public that the old coins were to be legal tender to the amount of 3 yuan from the date the new ones were issued, and that in the second year the legal tender amount was to be limited to 1 yuan. At the same time measures were to be taken to redeem the coins and to remint the requisite number of 2 cents and 5 mill coins. Also the best 10-cash pieces should be selected to serve the purpose of the 1-cent pieces under the new currency law. It was decided that at a subsequent and suitable time the Government should proclaim that the old subsidiary copper coins were no longer to be allowed to circulate.

All these regulations left out of account the store of about 100,000,000 foreign dollars in the hands of the Chinese people. The Government did not pay sufficient attention to the means by which coins were to be put into circulation in the country, and the regulations with regard to the bank of issue and convertible bank notes in connection with this scheme were, to say the least, unsatisfactory. I will refer to this question when I discuss banking. In the meanwhile, before concluding the section on efforts of the Chinese Government to reform currency, I have to make brief reference to the currency loan of £10,000,000 signed in April 1911 and the scheme of Dr. Vissering who was appointed monetary advisor to the Chinese Government under the conditions of this loan. In passing, it is as well to know that owing to the Revolution which followed soon after, the loan was not floated and Dr. Vissering's scheme has, so far, not been adopted by the Government.

CHAPTER V.

LATER CURRENCY DEVELOPMENTS

Early in 1911 Tang Shao-yi resigned the presidency of the Board of Communications and Sheng Hsuan-huai, more familiar known as Sheng Kung-pao, was appointed in his stead. With the advent of Sheng there was an activity in the Government affairs rarely known in the latter history of the Manchu dynasty. He inaugurated what was known as the business Government and, at least in theory, his policy was all that could be desired. Within the first four months of his stewardship of the ministry, he created almost a record in the speed with which he concluded one loan after another. Early in April the startling announcement was made that China, through an agency of Sheng Kung-pao, had contracted a loan of £10,000,000 with British, French, German and American capitalists, the major part of this sum to be ear-marked for the reform of the currency. Few believed this report to be correct but it was announced officially that on April 15, 1911, the agreement was signed for a loan for the reform of currency between Prince Tsai Tze, as president of the Board of Finance, and the Four Power group. The signatories of the Four Power group represented the Hongkong and Shanghai Bank on behalf of the British, Deutsche-Asiatische Bank for the Germans, the Bank de l'Indo-Chine for the French and J. P. Morgan & Co., Kuhn, Loeb & Co., the First National Bank of New York, and the National City Bank of New York for the American group. The amount of

the loan was £10,000,000, the interest was 5 per cent. and the issue price 95. Although it was known as a currency loan it was arranged that 30 per cent. of the receipts from the loan was to be ear-marked for the development of Manchuria. It was agreed that £1,000,000 was to be paid at once and to be devoted to that purpose immediately. The balance of about £7,000,000 was agreed to be used for currency reform and was to have been paid when the International Syndicate was satisfied with the scheme that the Government of China proposed to institute. About £400,000 was paid to China to be devoted to Manchurian development, immediately after the loan agreement was signed. In the meanwhile meetings were held in London, and subsequently in Berlin, between representatives of the Chinese Government and foreign banks, with a view to arriving at an acceptable scheme of currency reform. Things remained at this stage when the Revolution started in China, and it was agreed that all schemes for reform should be postponed until after the close of the Revolution. The Manchu dynasty was overthrown and the loan was not completed.

No Stoppage in Coinage.

At no period since the commencement of work at the provincial mints, until the latter half of 1914, had coinage been stopped, of either silver or copper. Even during 1911, the year of the Revolution, the output of the seven mints of Tientsin, Nanking, Wuchang, Chengtu, Yunnanfu, Mukden and Canton amounted approximately to 15,139,677 dollar pieces 4,535,730 half dollar pieces—the minting of these being practically all done in Yunnanfu,

1,092,865 Tibetian coins—the minting of these being done in Chengtu, 42,535,525 20-cent pieces, 393,020 10-cent pieces, 5,147,928 20-cash pieces and 294,797,558 10-cash pieces. Thus even during a year in which there was considerable political unrest the value of the coins turned out of the mints in China was roughly £2,600,000. Even in the succeeding years the volume and value of coinage has more or less depended upon the whims of the provincial officials. What with the depreciation of paper and the lessened difficulty of putting a portion of the output into circulation, coinage continued to be a source of profit to a number of provincial Governments, until the commencement of the European War. A factor which helped to maintain coinage was the complete disappearance of private paper money from circulation during, and after, the revolution. Owing to the financial stringency caused by political situation as well as stagnation of trade due to the uncertain condition of affairs in the country, people preferred even the most depreciated of coins to the best of paper money. During the latter half of 1914, they preferred sycee and bar silver to all coins.

Dr. Chang's Scheme.

Under the terms of the loan of 1911 Dr. G. Vissering, at one time president of the Java Bank, was appointed monetary advisor to the Chinese Government in the month of October; owing to the fact that a day or two after his appointment the Revolution broke out, he was not able to do much. He was succeeded in November of the following year by Dr. E. A. Roest. During the interval, Dr.

Vissering, with the assistance of Dr. Roest, had formulated a scheme of reform on the basis of a gold exchange standard. In January 1913 Dr. Roest died and Dr. Vissering submitted a scheme for the reform of banking—which is almost entirely devoted to the establishment of a state bank, and with which proposal I will deal in the latter part of my book. In the meanwhile, the Currency Commission was appointed with Dr. Chang Tsung-yuen as chairman, to reconsider the question of currency reform in the light of the suggestions made by Drs. Vissering and Roest. This Commission formulated draft regulations, which received the approval of the President and Cabinet early in 1914. I will give a brief summary of proposals, which in passing, I might remark, were as of much practical value as the several proposals made under purely Chinese auspices:

Dr. Chang's currency commission proposed that the unit must be small and contain only six mace 4 candareens and 8-li (Kup'ing weight) or 23.97795048 grammes of pure silver. The silver coins were to be four: 1 yuan, half yuan, 20-cent piece, 10-cent piece; the 5-cent piece to be nickel; and the copper coinage to be comprised of 2-cent piece, 1-cent piece, 5-li piece, 2-li piece and 1-li piece. The coinage was to be in decimal progression; 10 li was to be worth 1 cent and ten 10-cent pieces was to make a yuan and thus 1 yuan should be worth 1,000-lis. The weight and fineness of the coins were to be as follows: Yuan, 72 candareens, 900 fine; half yuan, 32.4 candareens, 700 fine; 20-cent pieces, 12 candareens, 700 fine; 10-cent pieces, 6 candareens, 700 fine; 5-cent nickel pieces to weigh 7 candareens with an alloy of 75 per

cent. copper; 2-cent copper pieces to weigh 28 candareens with 95 per cent. copper and alloys of 4 per cent. pewter and 1 per cent. lead; 1-cent copper pieces to weigh 14 candareens, with the same amount of alloy; and 5-li, 2-li and 1-li pieces with proportionate weights and the same proportion of alloy. The yuan pieces were to be unlimited legal tender, half yuan pieces to be legal tender up to $20, 20- and 10-cent pieces to be legal tender up to $5 and nickel and copper pieces to be legal tender up to $1. There were regulations for the enforcement of the currency law, withdrawal of the coins in actual circulation and all the paraphernalia for the proposed reform. Those acquainted with this subject could see at a glance that the whole scheme was absolutely ridiculous, especially when it proposed to have coins with 30 per cent. alloy.

Dr. Vissering's Scheme.

The next important scheme and one which appears to have attracted a fairly large amount of attention at one time at the hands of the Chinese authorities is that of Dr. Vissering. In his memorandum "On Chinese Currency" the learned doctor states that "the problem which he has endeavoured to solve is how to devise a monetary reform for China which will first of all be suitable during a long but necessary period of evolution from the present complicated condition down to a well-organized system, and will, moreover, contain a nucleus of ultimate usefulness." He claims to suggest and explain a solution which will possibly avoid disturbances such as have been connected with currency reform in other countries and which purports to give an answer to the

question: how can a stable currency be established in China which combines the following principal characteristics:

"(1) That it be serviceable during a preliminary period in which it will still be necessary to maintain a circulation of dollar, sycee and copper cash on the present footing; (2) That it will be serviceable as long as it is yet impossible to use token silver coins, which are a necessary consequence of a gold standard or a gold exchange standard system; (3) That it will not run the risk of a break-down on account of adverse balance of trade or of payment; (4) That it will, from the first moment, obviate the evil of speculations in silver and in commodities, which would be unavoidable as long as the value of the new unit had not yet been fixed; (5) That it will offer the additional advantage of a fairly long period of transition during which the population can become familiar with the new system. During this period both systems must be used with equal facility, the one not necessarily ousting the other from its place, so that the whole currency reform could be carried out very smoothly and no final adoption of a gold exchange system or a gold system, as a single system for the whole country, need be made until the country were really ripe for it; (6) That it will in the meantime assure China's foreign relations (also with respect to loans, etc.), of the certainty of a fixed unit, which is of vital importance, if capital is to be attracted from abroad for the development of the country; (7) That it will offer a new unit which does not in the least disturb the existing agreements, and is based on the present circulation of taels — the new unit being a sub-divided part of one of the most common

taels, in order that all existing agreements may without difficulty be fulfilled in terms of the new unit; (8) That it will offer a new unit, which is not too high in value, since it would otherwise cause dislocation with regard to many subsidiary coins and have a tendency to raise prices; (9) That it will avoid the issue of new silver coins of so high an intrinsic value, that they would already prove too high on a slight rise in the price of silver, with the result that they will have to be demonotised as has been the case with the Straits and Philippine dollars, a measure which would practically amount to another currency reform."

Dr. Vissering, of course, does not discuss even the bare possibility of having silver as the standard. His idea is that the very first step must be the adoption of a future gold unit as the foundation of a new system in order to avoid speculation on the announcement of the gold par, as also to avoid the new unit having to be raised later to its future nominal value. He laid special stress on the organization of a central bank of issue for the achievement of the desired result; for convenience's sake he would reorganize the Taching bank—called the Bank of China after the establishment of the Republic—as a central bank for the whole country. Along with the organization of this bank he proposed the introduction of a new gold unit as a money of account for book credits and book transfers. The next step would be to secure the co-operation of the foreign exchange banks and private Chinese banks and bankers for the introduction of the new gold unit into their book-keeping. With all the banks supporting the unit it would be certainly easy, says Dr. Vissering, to issue bank

notes based upon the new gold unit. These banks notes would become legal tender eventually, but before arriving at such a position steps must be taken to accumulate a gold reserve against them and regulate the management of the gold reserve. Apart from this the course of reform must also depend on the condition of the balance of trade and the balance of payment for China.

Having secured satisfactory results from the above steps the Government would have to issue new coinage and fix the weight, fineness and alloy of the token coins and of the new subsidiary coinage. He would advocate the issue of these token coins and subsidiary coins first; and simultaneously the accumulation of a gold reserve against the token coins and the regulation of its management. If desirable and practicable it would be all the better to coin and issue gold coins; otherwise admit temporarily some particular foreign gold coin as legal tender, also issue temporarily gold certificates. The token and subsidiary coins would be in silver, nickel and copper, the silver unit weighing 8.50 grammes, 900 fine, the fine weight in grammes being 7.65; there would also be a two-unit piece with the same fineness and double the weight, gross and fine; the half-unit piece was to be 4.75 grammes in weight, 800 fine, the fine weight in grammes being 3.80; the only other silver coin to be the 1/5 unit, 1.90 grammes, 800 fine, the fine weight in grammes being 1.52. There were to be two nickel coins, one 1/10-unit piece and one 1/20-unit piece, the weight and alloy to be determined later on. There were to be three copper coins, one 1-cent piece and one ½-cent piece and one 2-cent piece, the last coin to be introduced only if necessary — the gross

weight and eventual alloy of these coins to be determined later on. The gold coins should be issued, only after the silver and subsidiary coins had been in circulation for some time. There was to be the 20-unit piece, 8.09974 grammes in weight, 900 fine, the fine weight in grammes being 7.289766; there would also be a 10-unit piece 4.04987 grammes, 900 fine, the fine weight in grammes being 3.644883. When all these coins had been issued and circulated, first all the silver token coins of 1 and 2-unit should be proclaimed unlimited legal tender; then, the gold 20-unit unlimited legal tender; then, the gold 20-unit and 10-unit pieces and eventually the gold certificate would have to be proclaimed unlimited legal tender. After a short interval steps should be taken to bring about the gradual withdrawal and subsequent demonetization of old silver dollars, the old sycee, as far as necessary and practicable, and all the existing copper cash.

Dr. Vissering and his collaborator are experts in the theory and laws of banking and currency; but most of their practical illustrations are taken from the position and developments in the Netherland Indies. It is certainly questionable whether any proper comparison could be drawn between the Dutch East Indies and China. Two points are very evident. As in China to-day there was the same tangle and confusion of currency, to start with, in the Dutch Indies; the same difficulties, though on a smaller scale, had been experienced in the Netherland Indies, in connexion with imperfect communications with the interior, and decentralization of trade and administration; these conditions militate against the sure and successful introduction

of a healthy currency system on any basis, approaching that of modern civilized countries. Above all the reform of currency on the lines proposed by practically all reformers involves the necessity of creating confidence in a token coin on the part of an Asiatic population, which has for generations been accustomed to accept most coins at their intrinsic value only. Beginning with these points of agreement, Dr. Vissering has proposed for China a reform based on the system adopted in the Netherland Indies. Hence the crux of Dr. Vissering scheme is a silver standard which has to be gradually replaced by a gold exchange standard, with a period intervening, during which the two systems have to function side by side without interference. I now propose to give briefly the plan of Dr. Vissering without going in detail into a discussion with regard to the several standards as also the several kinds of paper and coin money.

Dr. Vissering begins with the question whether it is advantageous to China to adhere to, or abandon, her present silver standard. The advantage of the present system is that it maintains itself with a minimum amount of legal fostering and supervision, the medium of exchange entering into circulation, at its mere intrinsic value, whether in bullion or coined in any shape or size. But in order to maintain even a silver standard worthy of the name a certain amount of care and organization is necessary to secure a stable subsidiary coinage in copper. At present the copper coinage in China stands practically by itself, fluctuating strongly in its ratio of the silver coinage, despite all official endeavours, following the laws of supply and demand. There is no doubt that, in actual practice, China is practically

working with two independent standards, copper and silver, and the resultant confusion and hardships, both in trade and individual transactions, are admitted to be great. Ever since China began to have a volume of foreign trade the difficulties have been still further increased on account of the instability of exchange and prices for the simple reason that all foreign countries, with which China deals, have adopted the gold or gold exchange standard. Considered from every point of view, Dr. Vissering holds that it is absolutely necessary for China to come into line with the rest of the civilized world and base her currency upon gold, even if not a single gold coin is to circulate for generations to come. A gold coin is too big a unit for all daily transactions; and the practical difficulties of introducing an adequate gold circulation are all but prohibitive in the present circumstances. Hence, his proposal is to maintain a unit token coin at a nominal gold value by means of gold reserves held abroad. The introduction of a token coin is not so easy as it appears to be on the surface. Adequate protection against counterfeiting and illicit importation, as well as the general adoption of the new coin and securing its circulation throughout the length and breadth of the country, have to be secured by all possible means. All countries that have been using token coins have had to take precautions on the one hand against a possible rise in silver to the extent of raising the intrinsic value of the coin above its nominal value—which would result in the coins going into the melting pot; and on the other hand against a too tempting profit from counterfeiting. The Governments have had to face a further difficulty of outwitting "honest" counterfeiters—those

who turn out coins of exactly the same weight and fineness of the legal coins and therefore defy detection; their activities result in a large addition to the Government coinage and the Government has eventually either to stand by and see its token coins fall below par, or redeem them and thus pay the counterfeiters a profit. In any case, the chance of automatic demonetization by a rise in silver values must be avoided if an issue of token coins is to be successful at all; it follows, of course, that the margin between the real and nominal value of the coin must be sufficiently broad. Therefore, Dr. Vissering states, a token coin can only be used by a Government which is powerful enough to prevent a serious degree of counterfeiting even in the remote parts of the interior and at the same time defend all its frontiers against the importation of counterfeit money from abroad. China is certainly not in such an enviable position; therefore she would have to try and do without token coins for the first few years. However, as a stepping stone to a gold exchange standard, she might for the present have a unit based in gold in conjunction with bank-notes and the silver and copper currency now existing. As a matter of expediency China would have to maintain a double standard for a while, that is the gold exchange, carried out as far as possible, with the present silver standard. He states that this method has great advantages over the ones adopted in India and Straits Settlements, i.e., raising the existing coin in circulation to a fixed gold value. He claims that by this method all speculations in advance of the new measure, and the sudden losses and gains, which were the unpleasant features of conversion in India and the Straits, could be avoided.

Dr. Vissering begins by proposing an adoption of what he calls a "bank unit" or a theoretical unit with a fixed gold value. A fictitious unit is not new to the history of currency; at present the yen or the Haikwan tael are only book units. The learned doctor states, however, that theoretical units par excellence were the old Dutch Bank Guilder, which the Amsterdam Bank of Exchange kept up for many years with success, popularizing it even in international trade, long after the real coin respresenting that unit had become demonetized in 1622—and the Banco Mark of the famous Hamburger Giro Bank, which made Hamburg the focus of the book transfer system of banking down to the present day. The establishment of a bank unit necessarily means the establishment of a central bank of issue—which should be endowed by the Government with the exclusive right to issue bank-notes. This bank must correspond to the national banks in European countries. It should be an independent institution conducted on purely business lines, but controlled by strict Government-imposed statutes, with a certain amount of Government supervision. This bank would introduce the new unit and all other banks, foreign or native, should be induced to follow by opening accounts in the new book unit alongside of the existing currency. The working of this system would certainly be complicated in the beginning. The new unit being based on a gold value would, of course, fluctuate with respect to silver currencies. All transactions would certainly depend on the rate of the day according to the fluctuation of silver, but all transfers affecting the bank unit accounts mutually could take place without any conversions whatever. In the same manner transactions between the

bank unit and foreign gold currencies would find themselves independent of the fluctuations in silver value. Once the system was extensively adopted a good deal of the uncertain and risky exchange aspect which vitiates all mercantile transactions at present would be no longer operative. The practice of settling exchange in advance, a practice quite common at present, has been adopted to obviate risks arising out of an unstable exchange; under the bank-unit system much of this trouble could be obviated. Eventual settlements would, of course, take place in silver; but as the new system grew such cash settlements would get reduced as the proportion of the settlements which took place in the shape of the book transfers in the bank unit increased.

The next step, of course, would be the issue of bank-notes under the auspices of the central bank. It would be more difficult to counterfeit bank-notes than token coins, through the technical skill required, the numbering on the notes, etc. Considering that paper money in China has existed for over a thousand years, the introduction of Government notes should prove extremely easy. As a matter of fact these could be brought into circulation from the outset, and it is needless to state that the amounts in notes would be expressed in the new bank unit. The fundamental difference between the proposed issue and old issues in the past would be that, while there were no reserves of any kind for the past issues, the reserves under Dr. Vissering's scheme would be represented by gold stocks or gold credits held abroad. By holding the reserves abroad any chance of the notes being redeemed singly or in small amounts would be done away with; even if every bank or large firm should purchase

gold credits abroad with a sufficient amount in these bank-notes, any falling of the notes below par would be impossible, as in such case the depreciated bank-notes would, as a matter of course, be bought up by banks and brokers as a cheap way of remitting money. Such anticipations, says Dr. Vissering, are very far-fetched, for where a number of accounts exist at the banks in the same unit, the bank-notes would simply change hands over the counter at par as silver bank-notes do to-day.

Dr. Vissering is anxious to make it plain that the issue of notes in the bank unit should not be a Government issue, although the right to issue notes would be granted to the central bank by the Government. There are two reasons for keeping the Government out of this, as in the past the Governments have abused the right and there is a temptation to misuse such power in times of stress. Concurrent with the issue of notes in the new unit, steps should be taken to arrange for the proper gold reserve abroad, which should be kept strictly and exclusively for the redemption of these notes. This reserve would be created out of nothing, so to speak, by printing and issuing the notes against cash, foreign gold bills and credits, inland bills and credits, duly secured advances, etc. A proportion of the proceeds could then be converted into gold in such a shape as is held to constitute a proper reserve. These notes would naturally fluctuate a little above or below par, but as in the case of exchange between London and Berlin or London and Paris, the fluctuation could be kept well within one to two per cent. Besides the actual gold reserve usually held to include bank credits, short loans and discounts, there would

be an additional asset in the shape of advances against security. These advances would not be covered in the shape of bullion or coin, and would constitute practically a part of the working capital of the bank—the proportion of which would vary according to legal enactments and circumstances governing the likelihood of sudden and heavy calls being made upon the metallic reserve.

Dr. Vissering estimated that the gold cover might be eventually reduced to 50 per cent. of the issue, though, however, he believes that the percentage should be larger in the earlier years. Eventually, as a matter of course, a fair proportion of the reserve should be brought back and kept in China.

The adjustment of the balance of trade or the final settlement in metal for the excess of exports over imports or vice versa, is an important adjunct to the study of any monetary system. Shipments of treasure by themselves might mean anything, although it is understood that every monetary system is bound to feel the effect of any considerable movement of treasure very strongly. An adverse balance would probably, to a certain extent, be met in the first place out of the stock of money held abroad, and it is therefore necessary to define clearly the manner of operating the foreign reserve in this respect. An adverse balance of any magnitude is certain to make its effects felt, with regard to the maintenance of the reserve and the par value of the token coin. A thorough examination of the trade conditions is essential before a decision is adopted with regard to any system of currency. And Dr. Vissering claims that the transition stage, which is provided for under his system, would prove very helpful in this

respect. Silver, either in this shape of an addition to currency, in which it would exist during this period, or in its character of a mere commodity, which it would always continue to have, could always be used for adjusting the balance one way or the other.

After a careful examination of the currency systems of the countries of the Far East Dr. Vissering claims that the yuan with subdivisions down to its thousandth part, which was adopted by the Imperial edict in 1910, would prove too large a unit for Chinese coinage. Dr. Vissering claims that the fact alone of the necessity of maintaining such minute subdivisions should prove that the coin was too unwieldly. There are many practical objections from the minting, business and public users' point of view against very small coins; and a unit which is too large is known to have a tendency to raise the cost of living. Generally speaking, the dollar is known very well only in the ports and their environs. In the interior of China the dollar is quite as unfamiliar to the people as any other coin of such a size. Dr. Vissering examines the position in Japan where the 50-sen piece is for all practical purposes the coin in circulation, in India where the rupee circulates and in the Strait Settlements where the old dollar weighing 26.957 grammes was replaced by the new token dollar of 20.2172 grammes. For China he advocates the fixing of a new unit at a value of roughly half a dollar, or more exactly, a third of a Kup'ing tael, with silver at 28d. per ounce. Such a unit would have a fixed gold value between the shilling and the reichsmark. Existing contracts, debts, etc., would, of course,

have to be converted into the new unit by due proportion, or left to work themselves out on the silver basis, which must continue to exist, in any case, for some time side by side with the new unit. The subdivisions proposed by him go down to 1/200 of the unit or half a cent as the smallest coin; this would be equal in value to about a quarter of the present copper coin (T'ung Tzü) and the needs of the poorest of the population would thus be adequately met. Should by any chance the value of any commodity be even below that, says Dr. Vissering, it is hardly conceivable that the poorest purchaser could not lump together two or more purchases in a day so as to make up the value of this small coin. The most important consideration in connexion with the coinage of small coins should be the economical factor—in the minting and in the actual circulation. In some countries the small coins have had to be abandoned as useless after a large amount of unnecessary expenditure in the minting. Dr. Vissering proposes that China should avoid committing the error from the very outset.

I have already given the weight and fineness of the unit and the subsidiary coins proposed for China by Dr. Vissering; and we know already the considerations that have led to fixing of the scale of weight and fineness with regard to silver pieces and the alloy and weight with regard to the nickel and copper pieces. It must, however, be borne in mind that the date of minting of the token and other coins, according to Dr. Vissering, would actually be left entirely open for many years after starting the bank unit system in actual practice.

It is understood that the unit as a coin must come into circulation within a few years of the adoption of the bank unit. Once the coins are put into circulation it would be high time to look after the building up of the reserve. Dr. Vissering proposes that a gold reserve fund to maintain the par value of the token coins could be created out of the so-called seigniorage profits, arising out of the coins being issued at a higher value than their intrinsic value in metal; this fund would be distributed mostly abroad, and managed very much like the bank-note reserve fund, referred to already. The principal difference would be that while the bank-note reserve belonged to the bank the currency reserve would be the property, not of the bank but of the Government, although the management might with advantage be entrusted to the former. Being less liable to sudden calls than a bank-note reserve, after the currency has once been firmly established in circulation, he estimates that after a few years it would be safe to use 25 per cent. of the fund for works of public utility. About ten years after the issue of coins, the proportion might safely be increased to 50 per cent., and thus in the course of a few years a very large sum of money would become available for the construction of railways, redemption of debts, etc.

The large token coins should be raised to the rank of legal tender only when a reserve is firmly established, and their parity with gold, or nominal value, could be fully maintained. Also care should be taken not to allow local premia or discounts on the token coins; a contingency like that could be avoided, by general acceptance of token coins

at their full face value by the Government, the Customs, post office, railways and other public institutions. Similarly, the subsidiary coins should be readily exchangeable against larger token coins, bank-notes or transfers.

When once the new coinage is well established and available in sufficient quantities, the old silver dollar, sycee, cash, etc., could be gradually withdrawn and redeemed as much as possible, only in the shape of new token and subsidiary coins. Dr. Vissering also proposed measures for the redemption of copper cash, especially in view of the fact that their value varied with different places. The various local values would have to be recognized when the old coinage was being redeemed; in this instance, as in others, an enlightened bank administration, which must come in pari passu with currency reform, would help considerably.

I believe I have given the salient points of the scheme of reform proposed by Dr. Vissering. I do hope that the learned doctor is not misunderstood by my readers by the entirely short account which I am obliged to give of his system, mainly because I do not wish my book to become unwieldly. It so happens that all the previous schemes which I have given in brief in the earlier chapters are dead and gone, for all practical purposes. The only scheme that lives or has even a chance of being discussed with a view to adoption is that of Dr. Vissering. Hence, I am sorry to be obliged to criticise his scheme alone rather fully.

Chapter VI.

BANKING IN CHINA

The history of banking in this country is lost in the mist of obscurity of the past. The system of banking is very ancient; the use of bills of exchange is as old as the art of printing in China and the needs of this great Empire led to the riches of the trading class. Italian merchants learned in China the art of book-keeping, as combined with banking. China was several centuries ahead of Europe in the art of banking. Probably, as Edkins says, China had as much to do with the origin of the European bills of exchange as of that of printing books in Europe. When money had to be transferred in this country from any place to the capital, bankers were ready to see that it was safely conveyed. Before the age of silver currency in the Tang dynasty the Hwei P'ieau came into use as a bill of credit. Under the Wu Tai and Sung dynasties the general use of printed books was attended by that of blank forms among traders. The shop-keeper sent with goods bought from him the Fa P'iau, containing an invoice or list of goods supplied to the customer. A boat-master arriving at his destination with freight took with him to the trader a Ti Hwo-tan. There was also the Tsang Kwo-tan, the manifest or cargo certificate giving a detail of all the goods brought by that vessel. The merchant or his assistants, who took the goods away, had with them the Hie Tsai-tan or delivery order.

EARLY BANKING.

So far as could be ascertained, banking operations were carried on in this country on a large scale, principally by the Government, ever since the ninth century A.D. Ma Tuan-lin, the historian of Chinese currency, speaking about the trade of China in the ninth century states: the Emperor Hien Tsung (806 to 821) issued an edict prohibiting the manufacture of copper implements such as basins and kettles on account of the scarcity of cash. At this time traders brought their coin to the capital and presented it at the official treasury, the number of strings of cash annually issued from the various mints amounting to 135,000. An order was promulgated making it binding on traders to bring out their hordes of cash and purchase goods on a large scale, so that the current coins could be increased for the benefit of commerce. During this period also, traders returning from the capital preferred light baggage and they took their money, which was cashable at any provincial treasury, in the form of paper notes. Thus the paper notes, or what was then known as flying money, was for the first time introduced into China. This arrangement continued also when the Tangs were overthrown by the Sungs; the people who were authorized to pay cash in Kaifeng, for instance, received tickets or bank drafts. They could go to any city they liked, present the ticket and receive the amount named. In provincial cities taxes were paid in cash; but the treasurer could either give cash or substitute silk or other articles in lieu of the current coin when such tickets were presented. During the reign of the first Sung Emperor the

people were allowed to pay current coin to the Government treasury and receive the money in the provincial cities, on presentation of the bill of exchange — the official commission being 2 per cent. In 970 A.D. an official exchange office was established; merchants deposited money with the office, received a certificate and on presentation of the same to the treasury, received the treasurer's circular letter. The merchant was authorized to take the circular letter to the magistrate of any city, who was directed by circular to pay without any delay the amount mentioned. That this system was popular is evident by the fact that in 997 A.D. the value of these bills of exchange totalled 1,700,000 strings of cash; only twenty years later the value was 2,930,000 strings of cash.

Government as Bankers.

I have already mentioned the causes that led to the issue of paper money in Szechuan; also that at one time this paper money was dishonoured in the same province. After a great deal of discussion it was arranged that the issue should be taken out of the hands of merchants and that the administration should issue paper money. There was always in this country a readiness on the part of the official staff to undertake the duties of merchants; the officials took up the management of paper in Szechuan when the amount due to the Government from the several guilds had not been paid at the time mentioned in the contract. Merchants were very willing to collect taxes on behalf of the Government, quite as much as the Government officials were

anxious to act as bankers for the people. The Government treasury undertook to give the bank paper in one city, cashable, on demand, in another. The extensive use of paper money, especially in the earlier period of the history of this country, was mainly due to the extension of the banking operations by the Government.

Especially in the eleventh Century, the Government was a great bank and the officials were anxious to profit as much as possible from the banking operations of the Government. The situation became so intolerable that in the reign of Shen Tsung, Chang Fang-p'ing stated in the memorial to the Throne:

"To employ money as bribe, to engage the people to work for the state is to inflict injury on the administration. If I take, as an example, the seven district cities round the metropolis, they contain 67,000 families. They produce by their labour 152,000 piculs of rice and wheat and 4,700 pieces of silk, and give it to the Government. Such is the fruit of field and silk culture in the old way. The additional taxes in money yield to the state 113,000 strings of copper cash. When copper cash is wanting millet and silk stuff are given instead. The house tax amounting to 5,000 strings is, however, always collected in cash. Such is the old system of taxation transmitted to us from our ancestors during 2,000 years. Under the five dynasties which succeeded the Tang period, there was still no change in the system, but now personal service due to the state is rendered in money each year and the amount of cash collected is 75,300 strings. The system which has lasted so long is now thought to be unwise and it is proposed to distribute among the farmers 83,000 strings of cash with the intention of securing a profit of

16,600 strings. This amount, however, could not be collected, only 3,000 strings having been actually received. Another measure proposed by Wang An-shi was to withdraw the edict which forbade the export of copper cash. This was to encourage the sale of copper and allow it to become the property of foreign nations. This policy is a mistaken one, because the Imperial cash will be melted down in large quantities; few new cash will be made and a scarcity of copper currency will be felt. It is the duty of the state to provide currency in order to stimulate trade and promote the revenue in a legitimate way."

Banking and Taxation.

Banking in the early reigns of the Sung Dynasty has been more or less connected with taxation. There was always trouble on account of the merchants trying to collect taxes and the Government trying to do banking. Among the laws promulgated during the reign of Emperor Shen Tsung who reigned from 1068 to 1086 there was "a market law to regulate official loans and interests." In those times the Government helped the farmers very often, the Government paying more attention to agricultural prosperity than in subsequent periods. The Government was obliged to do some sort of banking business because they habitually distributed to farmers the money in the treasury and the grain in the granaries. The farmers paid interest at the rate of two candareens a month or 24 per cent. a year and the growing crop in the spring was security for the repayment in the autumn. The Government had also to do a little bit of trade in order to facilitate

the arrival of sufficient goods for consumption in the capital, as well as the military centres distributed throughout the land. It was very much concerned with adequate supply in the capital, and it paid out money for certain goods which were conveyed to the capital for use there. Wang An-shi proposed to lend money to insure the purchase of goods in the provinces when they were cheap; each province sent as tribute supplies of its best products to Nanking, which was then the capital; and his proposal was to equalize the prices paid for the articles sent as tribute. It thus happened that money lending became a principal part of the official routine. Another method by which banking by the administration was fostered was by lending money from the official treasury on the security of land, houses, gold or silk goods. The Government had a double object in instituting this business; the first was to regulate business in general and the second was to help the Government take a profit, which would otherwise be taken by individuals —especially as the interest on such loans was 20 per cent. Very soon, however, the profits were diverted; this banking and pawnbroker business was undertaken by magistrates and treasurers with the aid of the public funds of which they were in charge. In this connexion it may be interesting to note that even as late as 1910 the viceroys and taotais were lending Government money freely to the native banks, without even a shadow of security.

Government Money Lending.

In the year 1078 Emperor Shen Tsung issued an edict to lend money and grain to farmers who were poor, in order to help

them restore irrigation canals needed for agriculture. The money was taken out of the public treasury and the grain from the granaries. In A.D. 1311 the then Emperor learnt that there was a store of rice in the metropolitan granaries while the people were suffering from want. He ordered it to be placed in the hands of the Chief Conveyance Officer in order to cheapen the price of rice for the people. This officer was ordered to exchange 500,000 piculs of rice for gold and embroideries and to store the latter in the capital. The Governor of East Honan sent a petition to the Court to allow 302,200 strings of copper cash to be lent to the people, stating that the latter would discharge the debt the following year with silk fabrics—one piece of silk gauze being worth 1,000 cash and the gauze being woven in winter.

Banking and Currency.

It is thus evident that practically all the banking business done in China up to the twelfth century was undertaken by government. I mentioned already that under the Tang Dynasty the Government did not a little banking business; and it continued to transact a good deal of such business ever since. I have also stated how it was necessary for the Government to do this business, which was then undertaken partly to facilitate the collection of taxes and partly to help traders. The business became more or less complicated owing to the various changes in currency. The issues of paper notes, the several copper coins and the several systems of tax collection were more or less intimately connected with banking in this country. For instance, in the year 1263,

the taxes were estimated at 712,171 catties of silk and 56,158 ting of notes—a ting being worth 50 taels of silver; in 1265, the taxes totalled 986,912 catties of silk, 56,874 ting of silver and notes, and 85,412 pieces of woven fabrics; in 1266, silk 1,053,226 catties and silver and notes 5908 ting; in 1267, silk 1,096,489 catties and 78,126 ting of notes. As the years progressed taxes were paid in other articles besides silk; for instance, in 1329 the taxes were collected in the shape of 989 ting silver and notes, 1,133,119 strings of cowrie shells, 1,098,843 catties of silk, 350,530 pieces of woven silk, 72,915 catties of cotton and 211,223 pieces of woven cloth. These commodities had to be exchanged and re-exchanged; naturally the Government had to do a sort of banking business.

Despatch of Money.

Up to the close of the seventeenth century, when China was more or less self-contained, banking was necessarily restricted in its scope. Owing to the situation arising out of the chaos of currency, a greater part of the business of the small banks consisted simply in changing one set of coins into another, without reference to trade or any other factors which have made banking in modern times a business of extreme importance. The principal business of the banks was the changing of one set of money into another; but it must be understood that in those times silk, cowrie shells and even rice performed as important a function as a sovereign or a franc does to-day. These articles were usually accepted not only by the Government in lieu of taxation, but also in general business transactions. Although

there was a small volume of inter-provincial trade even as early as the fifteenth or sixteenth century, the trade was practically confined to very narrow limits. The village, the town or the province were all self-contained; at least their efforts were all directed towards supplying their wants without any outside agency. Thus the banks performed a very minor part, but every district or every province had to send money and tribute to the capital; a district of a province had to make arrangements to send its quota to the provincial capital, and the authorities in the latter had to make arrangements to dispatch their dues to Peking. As taxes were collected in kind, and as a portion of the commodities received had to be converted into articles of light weight before being dispatched to Peking the necessity of an agent to help towards the despatch of money and articles to Peking was acutely felt. The Shansi bankers, who have a very interesting history, undertook to do this as early as A.D. 900.

Shansi Banks.

The history of the Shansi banks, which continued to do business even as late as 1911, is almost a romance. These bankers made their fortunes in salt and iron, both of which valuable products were being exported from Shansi in unfailing abundance for more than 2,000 years—except, of course, during the past 100 years or so. There are evidences that the Shansi merchants traded with the Romans, as also merchants in other distant parts of the world. The traders from this province had perforce to travel to distant places in order to sell their goods; they became bankers by necessity — especially when their

business increased largely. Let alone salt and iron, merchants from Shansi did also a roaring business in silk, even as early as the first century A.D. The early Shansi traders sent their goods to Chihli, Shantung, Honan and Shensi in the sixth century B.C., and paid duties either with the new cash that then came into use, or with gold or silver. But it was not till after 1,200 years from that date that the wealth of the Shansi merchants and the extending use of paper money led to their becoming the bankers of China. Their banks made it their principal business to convey money from one province to another for a 3 per cent. charge or even a smaller fee. In about 1,200 A.D. or 600 years after they became regular bankers, coal was also exported from Shansi. The profits from the sales of salt, iron and coal were considerable. With the accumulation of capital arising out of the large trade, the Shansi bankers were able to help not only the Government, but also traders in all cities.

Government and Shansi Banks.

The modus operandi of the Shansi banks is very interesting and deserves a detailed description, especially as it was far in advance of the methods employed in Europe, even as late as the seventeenth century. Writers on Chinese currency have one and all ignored the part played by the Shansi bank in the history of the currency of this country. It is not generally understood that while the large and frequent issues of paper money helped to maintain the business of these banks, such issues of paper money would have been impossible but for the existence and business of these banks. The Shansi

banks were the first to introduce the system of drafts and discounts, as it is known to-day. They taught the world the possibility of dispatching money from one part of the country to another and even from one country to another without actual dispatch of specie. They introduced the system of cheques — not the modern cheques of course, but a paper which dispensed with the need of a traveller carrying silver with him, the paper in his hand having purchasing power in every city on the way. At first they were quasi-Government institutions. It is notorious that at no stage in the history of this country and under no dynasty has the Government had reputation for financial probity. The Government was always anxious to have the support of banks and merchants, whenever the occasion demanded; as a matter of fact the administrations would have been bankrupt on many an occasion, but for the financial help rendered by the merchants. When early in the career of the Shansi merchants, the Government found that they were men with means it lost no time in adopting means to ultilize their services. As early as the eleventh century the Shansi banks, for all practical purposes, corresponded to state banks—although both in the capital and in the provinces there were treasuries, which were on most occasions completely empty of any vestige of funds. But while Shansi bankers helped the Government, very often, the Government also helped these banks in several ways. With the prestige of Government support these bankers spread, and had branches in every city of note in the kingdom. Whatever money was available was given to these banks at first; and as the large portion of the wealth of the Government

under most of the reigns has been due to the issue of paper money, the services of the bank had inevitably to be requisitioned in order to put the paper money into circulation. It must be understood, of course, that they were not willing to be the obliging tools of the Government at all times; they frequently safeguarded themselves by getting hold of whatever bullion or specie was available, especially as they were able to do so, even better than the Government. Thus, although they were responsible for putting into circulation large amounts of paper they maintained their credit with the public, because they were able to control whatever silver or copper was available in the kingdom.

Shansi Banks and Native Banks.

Until the advent of foreign commerce the Shansi bankers performed most of the functions of the Government treasury besides facilitating the commerce of their own province in salt, iron and silk. When China began to have foreign commerce of sufficient magnitude these banks played a still more important part. They were the only institutions that had branches or correspondents in every part of the country; and their drafts and acceptances were received anywhere, even by the Government treasury, without question. They became the only media through which money could be dispatched from one province to another or from one port to another, at the cheapest cost. The Government was availing itself of their services and the traders naturally did not hesitate to make use of them. They also encouraged the growth of native banks and kept a sort of watch over them. As a matter of fact during the closing years of

the nineteenth century the native banks did anything they liked so long as they were in the good books of the Shansi bankers. When inter-provincial business increased year after year, the Shansi banks, which had branches everywhere, were slowly giving up local business in favour of the local native banks, whom, in many instances, they helped to establish. When in almost every port or city, the local business was being done by the native banks the Shansi bankers confined themselves to inter-provincial business and the supplying of funds to the native banks. To put it plainly, the native banks did local credits, mortgages, received deposits and took charge of such business as pertained to local trade. For a long time the local native banks depended entirely upon the Shansi banks for working capital in spite of the deposits and other business they had. Lately, however, since the increase in foreign trade and banking during the past forty years, the native banks obtained supplies of capital from foreign banks, through the medium of what are commonly known as chop loans. Also the officials, with a view to profit to themselves, deposited money not only with the Shansi banks, as had been the custom for centuries, but also with the native banks. Thus although up to their closing their doors in 1911, the Shansi banks were the only mediums of inter-provincial trade, they were certainly losing their prestige in the last three or four decades of their existence. To explain this I have to go in detail into the growth of banking in China during the past fifty years.

Banking and Money.

The different classes of banks that have been in existence during the past fifty

years have been described in my "Finance in China." The most interesting and wide-spread are what are generally known as native banks. Originally these were nothing else but shops, where one kind of money could be exchanged for another. Owing to lack of sufficient occupation and the fact that currency had always remained one of the principal means of raising revenue, it was not to the interest of either the central or the provincial Governments to simplify the complications arising out of the circulation of different kinds of money. Moreover patriotism or citizenship in this country has been more or less parochial. The merchant, the banker or the resident of one province looked upon the merchant, the banker or the resident of a neighbouring province not in the light of citizens of the same country, but as people out of whom they should profit as much as possible. If there had been a sufficient number of commodities to trade in, in large quantities, or if there was some possibility of two provinces at least trading with an alien country it is probable that the course of development might have been different. Unfortunately, owing to the fact of there being a very limited inter-provincial or foreign trade, the people took to dealing in money. It was more or less of a gamble and the native banks facilitated the business in what was then known as money. The population needed something to engage its attention as also some means by which each individual could profit; and at one time the only safe and likely occupation of any one with a small amount of capital was the business of exchange.

Banking and Exchange.

It thus happened, therefore, that the primary business of native banks resolved itself into one of money changing. There was, of course, the usual banking business of loans, deposits and bills, etc.; but they were rarely looked upon as important sources of revenue. It was at this stage that the foreign trade began to make its influence felt on native banking. The trade of the foreigners, even as late as 1840, was altogether confined to the one port of Canton. The articles of foreign manufacture had to be brought to Canton and from thence distributed all over the country; and Chinese produce had also to be brought to Canton, transactions settled, and the goods shipped from that port. Such a restriction was a great impediment to the progress of foreign commerce; and a discussion on that subject is beyond the scope of the present volume. But the effect on banking was to accentuate the business of the dispatch of funds from one place to another. When foreign manufactures were brought to Canton arrangements had to be made to sell them to provinces as distant as Hupeh or Shansi. That meant, of course, that the merchant or merchants in Hupeh should dispatch the money to Canton and receive the goods for sale in their own respective provinces. Or when the foreigners wanted to buy tea, silk or any other produce, the money had to be sent to the place of production from Canton and the goods dispatched to Canton after the receipt of the money. It is not necessary on my part to state that there was no credit then in China; or, for the matter of that, at no period in her history.

METHODS OF EXCHANGE.

What were the processes involved in the dispatch of money from Canton to the interior, or from the interior places to Canton? Let me take, for example, a single transaction each way. Supposing, for example, the East India Co., which had practically the monopoly of foreign trade up to 1833, wanted to buy 100 piculs of silk available only at Shanghai. As a matter of course, the order was given to one of the hong merchants in Canton and he immediately placed a certain amount with the native bank with instructions to have that money sent to Shanghai to a correspondent of his in order to buy the requisite quantity of silk. The native bank in its turn paid the money out to a branch of one of the Shansi banks in Canton, with instructions to have the money dispatched to Shanghai. The reason for the native bank approaching the Shansi bank is apparent. Even up to recent years native banks have continued to be almost exclusively provincial —although there have been exceptional cases in which powerful native banks have had branches throughout the country. The Shansi bank in its turn intimated to its branch in Shanghai or one of its correspondents that a certain amount had been placed to the credit of the person in Shanghai mentioned by the hong merchant, who dispatched the money from Canton. As soon as it received instructions, the branch of the Shansi bank in Shanghai issued an order on one of the local native banks to pay a certain amount to the party named. The correspesdent of the hong merchant in Shanghai received the money, bought the goods and dispatched them to Canton. Considering the extreme

difficulty of transporting money it is extraordinary that the charges of the Shansi bank for sending money from one province to another should have rarely exceeded 3 per cent. But money was not actually dispatched with each order; for, otherwise the cost would have been as much as 20 to 30 per cent. of the amount thus sent—the cost increasing proportionately to the distance of the place from Canton. What actually happened was that one transaction was set against another. It so happened that while the East India Co., bought silk from the party in Shanghai it sold wool to somebody else in Kiukiang; thus while money had to be sent to Shanghai to buy silk money had to be received for the sale of wool. Through the medium of the Shansi bank, it was possible to arrange in such a manner as not to necessitate the dispatch of money from Canton to Shanghai or from Kiukiang to Canton. The Shansi bank had branches in all the three places; one transaction was set against the other if the respective amounts were equal; otherwise the process was simplified by dispatching the balance from Kiukiang to Shanghai or vice versa, or possibly by setting that amount against some other transaction between Kiukiang and Shanghai. In principle, of course, this process is just about what is taking place in everyday transactions in modern civilized countries; but in China this process was existent long before it was properly understood in Europe. Also, the dispatch of money to and fro involved so many difficulties before the final destination was reached, or final balance was struck; and it is simply surprising that all such transactions should have proceeded so smoothly.

Foreign Trade and Native Banking.

Before the advent of foreign commerce in China, the Shansi banks did this kind of business even without the intervention of native banks; but they gradually withdrew from having direct business relations with merchants and private individuals for two reasons. The first was the gradual increasing power of the native banks. The Shansi banks did well at the time, but came to arrangements with the new banks, according to which there was equitable division of the business —the native banks doing the local business and derving profit therefrom and the Shansi banks doing inter-provincial business and profiting therefrom. Such division of labour led to smooth working of both these kinds of institutions. Apart from this, especially during the early years of foreign trade—when the East India Company was being ousted in favour of individual merchants—the Shansi banks played a very important part as custodians of Government money. They received large sums from the officials in many places, they even collected taxes on behalf of the officials; therefore it suited them to let the native banks have the local business in all provincial cities.

For over fifty years this arrangement worked well—even up to the last two decades of the last century. Neither of the banks lost in prestige or power, for obvious reasons. The volume of foreign trade was increasing year after year, thus leading to an increase in the volume of business of both of these kinds of institutions. The native banks became more and more necessary for local merchants for credit and for other regular business. The Shansi banks became even

more absolutely necessary, in view of the fact that money had to be constantly dispatched to and fro, or accounts adjusted; and there was certainly no other medium by which it could be done, even as late as 1910.

PROVINCIAL GOVERNMENT BANKS.

The monies of the Governments while generally kept with the Shansi banks were also lent out to the native banks. The profits mostly went to the provincial officials, and in very few cases to the provincial Governments. In about 1890 the officials began to think that it would be a good stroke of work on their part if they could derive the full benefits of the use of the money which was left in their hands, sometimes for long periods before being dispatched to Peking. They thought that if they started banks more directly under their control than either the Shansi or native banks, the profits to themselves would be greater. Also they were aware of the impediments to starting any bank under purely official auspices, especially when they had to run counter to the interests of existing institutions. So they compromised by giving special official support to some existing bank or other, or helping some tool of theirs to start banks which would receive the full official support. A number of the so-called official or provincial banks were started in almost every province. They were not Government banks; they corresponded to the presidency banks in the Indian provincial capitals, without, however, the Government control, which the presidency banks submit to in India.

Issue of Banknotes.

These so-called official or provincial banks never inspired any great respect among the Chinese. At first, of course, they cut into the business of the regular native and Shansi banks. The native banks were affected because, besides doing Government business, the official banks were allowed to do the regular merchant and trade business. They affected the Shansi banks, because the provincial authorities stopped depositing surpluses with them. They continued, however, to do their business through the native banks. The main endeavour of the official banks was to make both ends of provincial government finance meet. And when that was the object in view, it was useless to expect them to cater for the trade in the usual manner or to use the advantages they had over ordinary banks with a view to obtaining sufficiently large profits. There is no doubt that they did try to make profit, but not in the usual way. These official banks were the greatest offenders in connection with the unrestricted issue of paper money in the latter years of the Manchu regime. For nearly 800 years China had been suffering from periodical influxes of the Government paper. Although even during the reign of Hien Feng in 1853 paper was issued for large amounts, such money was getting out of circulation and was almost being forgotten at the time when the official provincial banks began to make use of paper money. There was never any attempt at redemption or maintenance of reserves, sufficient to meet possible demands for silver. In justice to the regular management of these official banks, it must be stated that the issues of paper

money were not made on their own initiative, but mainly on the compulsion of the provincial authorities. They could not very well refuse, except at the risk of the extreme displeasure of the officials; and incurring their displeasure was usually a prelude to closing their business. So the management of these banks chose the lesser of the two evils and began to throw out paper as money. Even up to date it has never been properly understood what proportion of the original profit of the paper issue went to the provincial governments and what proportion to the management of the banks. No proper accounts were kept. The probability was that notes were simply circulated at first without any calculation of the profit to the bankers, and the provincial governments took from these banks whatever silver they could lay hold of. The responsibility for the issue of the notes was also not properly fixed. The banks were provincial Government banks, although, for all practical purposes, no sort of control was exercised over them. When these banks issued notes it was not possible to apportion responsibility for such in a proper manner. The people, of course, took it for granted that this paper money was good enough, although they knew that in the past paper issues had been utterly discredited. A slight explanation is necessary to understand the popularity of these notes when they were first issued. The people were, by this time—in the ports at least—accustomed to the foreign bank-notes; and there was no question of the reliability of these notes or the ability of foreign banks to redeem them in silver. Secondly, the inscriptions on these Chinese notes were ambigious, so much so that that it was thought that they were

Government or bank-notes—according to the inclination of, and the interpretation put upon the inscription by, each individual.

Business of Official Banks.

Almost every province had an official bank or more commonly called a provincial Government bank. These banks were supposed to receive the revenues collected within the province and make arrangements for the dispatch of them to Peking, through the Shansi banks or other means. It is a curious commentary on the resolution or the zeal for reform of the Chinese that, even within a year after the formation of the first provincial bank, the business grew to be exactly like that of any other trading institution in the country. They did the usual banking business —receiving deposits, giving loans, discounting bills of exchange and so forth—and did such business with an almost reckless disregard for safety or sound commercial principles. The great asset of the proprietors or the shareholders of the banks was the quasi official support accorded to them by the provincial authorities; they employed very little capital and traded on the credit of being a so-called government bank. They speculated heavily —even in shares and stocks of foreign companies. The only difference between them and the properly organized native banks was that they had the authorization of the authorities to issue bank-notes. In this connection, it is only fair to state that most of the native banks could have obtained such authorization, if only they had asked for it. As a matter of fact, the best native banks have always prided themselves on the fact of their evading the necessity to issue bank-notes.

Misconceptions About Paper Money.

To such of my readers as are trained on the principles of Western economics and others who are not fully acquainted with the economic situation in this country, a statement like the above would appear to be extraordinary. Any student of modern economics knows that the issue of bank-notes is purely a matter of convenience and the banks that are allowed to issue notes consider it a privilege, although they must be prepared to meet every note, with gold or silver as the case may be, on demand. The fact of the well regulated native banks scorning the privilege of issuing bank-notes is easily understood, when it is known that the Chinese, even to-day, have not understood the principle of holding reserves in cash to redeem paper, on demand. The general impression among bankers who usually had no acquaintance with the principles of banking as known in Europe was, that the issue of bank-notes was the means of raising capital as cheaply as possible. The difference, as they understood, between the bank-notes and the Government notes issued under the Ming and other dynasties was, that, while the former must be redeemed sometime or other, the latter was inconvertible money. It is, therefore, evident that they were not aware of the fact that the notes should be redeemed "on demand"; the difference between the correct idea of a bank-note and the Chinese idea was that while the issuer of a bank-note has really no choice in the matter of the time when, or the place where, it is offered to him, the Chinese believed that the issuer of a bank-note had the choice of redeeming the notes when

and where he pleased—although, of course, as a matter of policy, it was considered better to meet the holder of the notes more than half way. In short, the Chinese banks believed that the bank-notes were none other than promissory notes, especially when the very terminology of the notes confirmed them in such belief. It is always best that the man who gives a promissory note should pay as soon as the holder demands the amount; but he has also the right of days of grace; and when he is unable to meet the demand a promissory note does not become void and he can obtain delays, one or more times. The difference between a bank-note issued by them and a promissory note, according to the Chinese bankers, was that while in the one case they didn't pay interest in the other they had to.

Banknotes considered means to raise Capital.

The inevitable corollary to such belief was the free issue of notes by all banks. They reasoned as under: "When we could get money without having to pay interest, why should we invest our own capital or pay interest in order to borrow capital?" Of course, they certainly understood that the notes should be redeemed in silver some time or other. But, as they started the business in the hope of obtaining large profits and also believed in their right to postpone the date of redemption of notes to a reasonable period, they never for a moment thought they were doing anything which was reprehensible. They had not the slightest intention of cheating the holders of notes; only they left out of their calculations the chances of failure—as also the possibility of

the holder of the notes issued by them losing his money merely because of their recklessness. The well organized native banks, on the other hand, had no necessity to obtain capital in this fashion; and the general conditions in the country were such that it was no convenience to hold the reserves in silver in the bank and send out the paper money. The best native banks, therefore, did neither issue bank-notes themselves nor recognize the notes issued by the provincial and other banks.

Influence on Business.

The circulation of the bank-notes in China is particularly interesting and has exercised a great deal of influence on foreign commerce. While those in charge of the banks issued paper with a view to obtain fresh capital without incurring interest charges, they left out of their calculation the chances of these same notes being returned to the banks as money. It is inevitable that when one pays out certain paper or an article as worth a certain amount, with a promise to buy it back when offered for the same price, he should take it back from a customer who offers the same back to him. At first the bank-notes were a great success, at least in the ports and in the principal cities of the Empire. But, at no time in the history of this country did the farmers and the people in the remote parts of the interior ever look upon anything else but silver or copper as money. The notes, therefore, circulated only among merchants and people in the ports and cities. In exchange for their deposits in the

banks, and cargo sold through the banks, they obtained these notes which they took without question. So long as it was only the issuing of the notes there was little trouble. But after a while the banks received the same notes for deposits as also for cargo bought through them. At first this arrangement which was an inevitable corollary to the first steps of the banks, did not cause any inconvenience —although the banks would have preferred, for a time at least, to receive all money in silver and pay out all in paper. But the situation became serious, because these notes were of little value except among middlemen. The foreign banks would not accept them as money and insisted upon payment in silver; and to the farmer in the interior this paper had no value whatsoever. Thus not only the utility of the notes became considerably restricted; but a serious situation was developing, in that the issue of such notes had led to over-trading among the middlemen in the ports. The banks issued the notes without any reserve; and it is a notorious fact that Chinese banks would use their uttermost farthing if only the chances of profit were big—without any thought whatsoever of the possible risks. Before the issue of the notes, the merchants did business on the basis of the silver that was available in the market—which was the only money available. After the issue of the notes they did business not only for the total of the silver available but also for the total of the notes, which, for a time, had the same value as silver money. The volume of business done was justified, neither by the amount of the cash available nor by the demand, one way or the other.

Over-trading in Imports.

Such a state of affairs could certainly not continue; and the several processes through which the system of banking had to pass before the final breakdown in 1911 are worth careful study. I will refer to them briefly and only to such an extent as may be necessary to understand the safeguards necessary for the future conduct of native banking. Within two years after the issue of the first bank-notes, the deadlock began to set in. Even from the outset the Chinese bankers were not unaware of the value and benefits of redeeming the bank-notes "on demand." As a matter of fact, excepting on occasions when they were completely on the rocks, they made every endeavour to pay silver for the paper offered to them. If only the several businesses that the bankers financed at the time of the issue of these notes had prospered, it is not at all improbable that the history of banking in China might have had to be re-written. It is extremely regrettable, however, that on account of the over-trading consequent upon the issue of paper money the whole business of the country was getting disorganized. A point worthy of note is that during these years the imports of foreign goods were increasing by leaps and bounds, while exports were slack. The reason was that while the Chinese bank-notes had some value in the ports and with some of the foreign banks—although they finally insisted on being paid in silver—they had no value whatsoever with the farmer. The result was that while the money available for trade in foreign imports at the ports was large, that available

for business with the interior, i.e., silver bullion, was comparatively limited.

The situation and competition in foreign trade also helped towards the maintenance of this unsound paper money. Although the banks were not willing to take it as money, some of the foreign merchants, in their anxiety to sell as much to the Chinese as possible, were willing to take them as money—because they knew that they could pay the notes back to the Chinese dealers in lieu of the produce bought from them.

Government and Paper Money.

The circulation of the notes was possible also because of the fact that the Central Government acknowledged it as money for a very short while. Especially during the last twenty years of the Manchu rule the Government was always suffering from the lack of funds, and the provincial administrations sent the notes issued by these banks in lieu of the contributions due from them. At first, of course, the central authorities were rather surprised at the readiness with which the provinces were willing to meet their obligations —especially in view of the fact that for several years previous, the ministry of finance was being inundated with petitions requesting it to intercede with the Throne for remissions of the dues from the several provinces. Although in many cases the provinces were actually unable to meet the tribute due to Peking, in a few cases the authorities were unwilling to despatch more money or grain than they should. During the same period corruption and peculation were increasing in direct ratio to the weakening of the central authority.

When, all of a sudden, some of the provinces claimed to have met their full quota of indebtedness by dispatching the notes instead of silver—as has been customary for centuries previous—Peking was at first bewildered and unable to make out the meaning of the sudden transformation in the situation. At first it remonstrated with the Provincial Governments stating that it was against precedent to despatch paper as money. The provincial administrations in reply stated that the paper was convertible into the amount of silver mentioned on the face of it and that the paper was readily passing for money, both in and out of the provinces in which it was issued. This statement was only a half truth; these notes were generally accepted in trade, especially by merchants whose main purpose was to exchange it for cargo at the earliest possible moment. From the point of view of the merchants these notes were the medium by which they were able to exchange cargoes. Fundamentally money is purely a medium of exchange; convention demanded that the medium should have a certain intrinsic value although such did not usually affect the value of commodities which were being exchanged, in countries like China. At all events the dealers did certainly not take kindly to the note issues; but when they found that the intrinsic value of the paper did in no way influence the trade of exchange in commodities they rather took to them, in view of the convenience of handling it. But the paper was of no use in the interior beyond the ports and the chief cities. Anyhow, the argument of the provincial Governments that the merchants were freely taking it for money told with Peking. The Central

Government had neither the occasion nor the acumen to enquire into the causes of the temporary popularity of the new paper money, or the reason why they were being accepted at all. The Government at Peking knew full well the real worth of these notes, especially as the provincial administrations have been complaining year after year of the utter scarcity of silver in their coffers.

Provincial Contributions in Paper.

It should have been the duty of a well organized Government to have put an end to these kinds of issues, knowing what they were and what they meant for the future. The Manchu Government was both unwilling and unable to take any step of the kind mentioned above. There was perennial want of money in Peking, where efforts were being made to obtain money by hook or crook. After a long period of isolation from the rest of the world the people and the Government were feeling acutely the impact of Western civilization and commerce. Within a very short period they had several conflicts with the foreign powers culminating as it did in the disastrous reverses suffered in the course of the Chino-Japanese war. Ever since Commissioner Lin commenced his ill-fated attempt to drive foreigners out of the Middle Kingdom by burning the 20,000 chests of opium in Canton, China has had to suffer losses, mainly as the result of the indiscreet actions of her officials. The greatest of all indiscretions was the quasi-official support given to the Boxers—both by the Court and most of the provincial administrations; the result was the practical doubling of China's

foreign obligations, besides the inordinate amount of loss and humiliation she had to submit to. The effect of such a situation on the relations between Peking and the provinces was that the provinces had to dispatch nearly twice the usual amount to Peking, in order to enable the latter to meet all the newly acquired foreign obligations. The Central Government, being hard pressed for money, pressed the provinces. The latter tried to do their best; in view of the condition prevailing and the general inefficiency of the administration it was found difficult even to despatch the usual quota of provincial contributions. The central and provincial authorities were indulging in bitter mutual recriminations; the provinces, however, knew that there was no means of forcing them to do anything else but what they chose to do. The result was that the Central Government had to make the best shift it could, as also arrange some other means of meeting the outstanding obligations.

It was at this stage that the provincial Government banks flooded the country with large amounts of note issues, and the provincial Government sent their contributions to Peking in the shape of notes. Peking was both chagrined and ill at ease at this new step—especially as it was unable to take any step to check the evil. Naturally, the next best course for Peking was to profit out of this; along with the provinces it was assiduous in pushing the circulation of these notes, especially as it had plenty to pay out.* For

* The Government bank-notes usually had a decree printed on the back, making them good for payment of all taxes and duties and likin; but other offices took them at a discount with the result that the people paid them into the treasuries instead of paying silver.

a considerable time any method of obtaining relief was welcomed by the Manchu Government; and it was well known that but for its embarrassed situation, the Central Government would certainly have taken steps to repudiate the indiscriminate issue of paper money.

The Methods of the Banks.

When the Central Government, the provincial Governments and merchants in all parts of the country accepted paper as money, there was nothing to prevent the free circulation of every note put into circulation by the banks. If the original intention of the banks or provincial Governments was to cheat the public, they might have issued much more paper than they did. Besides, neither Chinese bankers nor the Government understood the absolute necessity of redeeming the notes on demand; but they knew full well that to meet these notes in silver, whenever they were presented, was the best policy. They knew also that just as it was easy to obtain the confidence of the public in these notes it would be quite as easy to make the public lose confidence in them.* Two or three postponements or temporary refusals to cash them would probably prove sufficient in a country like China to stop people from accepting any more of these notes as money. Such a position, they knew, might also result in endangering the very existence of the banks concerned. We thus see the consideration which prompted the bankers to refrain from issuing further quantities

* It is doubtful, however, whether all provinces understood this; but they were checked by finding that the notes came back to them quickly. At Wuchang they were certainly never cashable in silver by the man in the street, and even foreign banks had to wait some days to get sycee for them.

of these notes—especially as, with the aid of the printing press, they might have issued notes to any amount. The regular native banks constituted a sort of a check on the haphazard procedure of the official banks. We know that the former almost despised the official banks for having had to take recourse to the use of paper as money; although they took the notes of the latter for short periods, mainly with the view to facilitate business, they always exchanged them for silver at the bank of issue; moreover the native banks never paid out sums due by them in any shape, except those of sycee or silver coins. The official banks had to keep face, especially as the public was aware of the procedure of the native banks. Consequently, the official banks had to pay out in silver occasionally; they generally compromised by paying out a certain proportion in silver and the balance in paper, in all their transactions. Even amongst these banks, the bank that paid the larger proportion in silver commanded larger credit and better respect than the one which paid a larger proportion in paper. Thus it was that while there was no lawful check on the issue of paper by the banks, the evil of the unrestricted issue was to a large extent minimized. In spite of all this there were several breakdowns due to the inability of the banks to meet paper with silver. As years progressed, the difficulty still further increased, in view of some of the less reputable native banks following in the wake of the official banks in making unrestricted paper issues. The foreign merchants and the Chambers of Commerce in China were really alarmed at the pace with which these banks were going and requested the Government to take steps to regulate, if not altogether

stop, the circulation and issue of paper by private or semi-official banks. Things were really in a very dangerous state when the whole problem was effectively solved all of a sudden. The banking crisis which followed in the wake of the revolution of 1911 made all paper money issued by Chinese banks absolutely valueless. From thence people would look at nothing but silver, or paper which had the authority of the Government at Peking. The Taching Bank or what is now known as the Bank of China, and the Bank of Communications were the only institutions whose note issues were fully redeemed; and the notes of these banks were considered absolutely good. The Bank of China regulated its issue according to the state of its silver reserves.

The Native Banks.

The most ancient and the most important of banking institutions in this country is the regularly constituted native bank. The whole progress of foreign trade is centred round the native bank; and this institution plays a far more important part in the commercial and political life of this country than any similarly constituted in other parts of the world. Although the system of cheques is an old institution in Europe it was never availed of except in rare instances until seventy or eighty years ago; as a matter of fact till the final adoption of the gold standard in 1870, cheques in commerce were as sparingly used as possible. In China, on the other hand, a system of cheques or giving orders to the bank to pay, was an institution in general practice for centuries—as a matter of fact quite as ancient as the

issue of Government paper which first made its appearance in China in the ninth century A.D. The native banks were the institutions with the aid of which the circulation of cheques was rendered possible. Of course, one must bear in mind that while things in Europe have been moving fast China has remained more or less stationary. The Chinese cheque or the piece of paper known to foreigners as the "native order" has been known to have been operative for at least 400 years.

It is not known when the native banks at first originated in China. All that is known is that they were in existence when the Mings had still the capital at Nanking and were then doing a flourishing business. There is no doubt that in the early stages they were mainly doing Government business; that is, they helped the Shansi banks towards transporting and helping to adjust the amounts of Government revenue and expenditure. But in those times it was still quite customary for traders to take large sums of money into the interior to buy things; also traders used to bring themselves the monies realized on the sale of cargoes which they took into the interior.

Native Banks Introduced Foreign Coins.

In the early days of the existence of the native banks they served more the purpose of exchange shops than that of regular banking. As even until the early decades of the eighteenth century commodities like silk served the purpose of money, the main purpose of the native banks could have been nothing else but that of adjusting exchange. Up to the time of the introduction of foreign trade in China

on a large scale, the native banks had very little diversity of functions. With the progress of foreign trade, however, their numbers increased. Not only were their duties diversified but their influence was also increasing. When all foreign trade was concentrated in the single port of Canton and all trade with China had to be done through a dozen or so of the hong merchants, the operations of the banks were immensely less than the volume of business done by them in later years. The principal business of facilitating the transmission of money from Canton to the distant provinces and from the interior to Canton was always done by the Shansi banks—the native banks in each particular locality doing the purely local business. But when Canton became the centre of foreign commerce the amount of money available to the native banks was immense. Ever since the beginning of foreign intercourse with China, Canton was the port through which foreign silver and foreign coins were introduced into the country. It so happened that for nearly 100 years since the East India Company got the charter of the monopoly of trade with this country, the balance always continued to be in favour of China. In those years there was neither credit nor any other means of settling the balance of trade but by paying actual silver, either in the shape of bullion or in the shape of coins. As China had no silver coins—and has no authorized one even to-day—the sums due to her on trade had to be paid to her in foreign coins and bullion. But bullion was unpopular because of the inequality of weight between the different pieces, as also the high value of each piece or bar of silver. The coins that came in large quantities were the Carolus or Spanish dollar,

the Mexican dollar, the American silver dollar and the Indian Rupee. The Carolus and the Mexican were of about the same value, while the American dollar and the Indian Rupee were of less value than the two former. Coins of such perfect shape and size were a rarity in China, and so long as the alloy was not too great—in view of the fact the Chinese often sent the silver coins into the melting pot—they were even more readily accepted than silver bullion. The native banks were the only medium through which the foreign coins or silver could be circulated. It is notorious that although ostensibly the foreigner has no dealings with the Chinese bank, practically all his business is done actually with the native bank. This point I will explain when discussing the relation between native banking and foreign trade.

Increase of Native Banks.

When other ports besides Canton were opened to foreign trade the number and function of Chinese banks increased. In Canton the hong merchants were given the privilege of trading with foreigners by the Government; they were generally very well-to-do people and there was a tacit understanding that any defalcation caused by one of them should be made good by the rest. In not a few cases the Government had to come to the rescue of these merchants and also to indemnify the foreign merchants. But when other ports were opened to foreign trade and any foreigner had the right to trade, the number of Chinese traders increased. Just as there was no monopoly among the foreigners there was no monopoly among the Chinese. Partly on account

of the necessities of the situation and partly on account of the fact that an increased volume of business over a wider area needed larger facilities, the number of native banks increased in proportion to the number of Chinese dealers. With the progress of years more and more ports were being opened to foreign trade and the consequence was a proportionately large addition to the number of native banks. The high water mark was reached just before the Revolution of 1911, during which, owing to the insecure foundation on which native banking rested, many of the institutions had to close their doors. Although the number of these institutions has been slightly added to recently, most of the existing ones are comparatively sound.

The "Native Order."

These banks have played an all-important part in the progress of foreign trade; as a matter of fact but for their activity, in not a few cases extremely unwise and unhealthy, the total of foreign trade would have been much less than the volume to which it has progressed. After the increase in the number of the treaty ports these banks became the sole medium through which foreign trade was conducted, and have remained so even at present. Originally, of course, it was a precautionary measure on the part of the foreign merchant. When the foreigner was dealing exclusively with the hong merchants he knew where he stood—especially as there were only a dozen hong merchants. But when the foreigner had to deal with everyone that came to buy goods from him, he had to ask for some guarantees of the bona fides of the dealer. In foreign

countries it is always the custom to give a bank reference with regard to the standing and stability of the merchant; the European and American merchant in this country in the early forties followed the rule at home in asking for a reference from a Chinese bank. A bank reference usually means that it is willing to give credit to the merchant it recommends as sound. The practice at home is usually for the banks to buy the shipping papers from the manufacturer, and collect the sum with interest from the merchant at the destination. In this country, of course, the foreign merchant has had little to do with the place to which his cargoes went. His business was complete when he had sold his cargo to a dealer in one of the ports. But the dealer objected to pay before the goods arrived at their proper destination. The dealer in the ports put it to the foreign merchant in the following manner: "I buy these goods from you for consumption in Szechuen, Honan or Shensi; as a matter of fact I do not get paid until the goods reach their destination; there is no doubt whatsoever that I will receive the price of these goods as soon as they are received by the buyer in the interior; hence it is only fair that you should give me time to send the goods inland and receive the money; it is understood that the moment I receive the money I will pay the stipulated price to you." The foreign merchant certainly saw the force of the argument of the Chinese dealer; at the same time he saw that it was none of his business to take risks. He told the Chinese dealer that he was quite willing to grant a certain period in order that his client might have the opportunity to receive the money from the real buyer to whom the goods

were delivered. But he was certainly not willing to take any risks of non-payment or delays which might be caused unavoidably. The compromise was arrived at in such a manner that while the foreign merchant was sure of the money the native dealer would have time to collect it. It was arranged that the dealer give an order of a native bank cashable in five, ten, or twenty days, according to the nature of the goods sold to the dealer and the distance they had to go; and the foreign merchant treated this as money and handed over the goods. The arrangement between the native banker and the dealer was of little concern to the foreign merchant. The bank not only becomes the guarantor for the merchant but also agrees to pay the amount at the stipulated date, whatever may happen to the merchant or to the goods. It is needless to state, of course, that the native bank undertakes this business for a very good consideration.

Changes in "Native Orders."

I have endeavoured to describe the origin as also the principle of native orders. But the whole business has gone through various modifications, so much so that a native order in the modern days has altogether a different significance to the native order of 1840 or 1850. For one thing, there is no native order which covers twenty days and the principle of giving due time for the goods to go into the interior, and money to come back to the ports, has been completely lost sight of. With the progress of time the foreigners endeavoured to obtain the value of the goods as quickly as possible from the men who bought from them

at the ports; on the other hand the Chinese were endeavouring to postpone paying for the goods which they took delivery of as late as possible. In this tussle it so happened that the advantage has been with the foreigner in respect of the reduction of the number of days of available credit, while the advantage to the Chinese has been the reduction in price as an inducement to make them pay as quickly as possible. There is also another reason for the change. In course of time, especially after the nineties of the last century, the native banks not only acted as banks but did business in merchandise themselves. The so-called dealers, who gave native orders to the foreign merchant, were merely tools of the native banks, who were entirely responsible for the losses or gains in all such business. The entrance of the native banks into the domain of actual business has been fraught with great consequences to both trade and banking; in order to understand the progress of events in this direction, I must first explain the conditions and functions of native banking.

Formation and Capital of Native Banks.

The working of the native banks was influenced considerably by the constitution or the method of their formation and the principles on which they had to be worked. Even to-day the Chinese have not grasped the principle of joint-stock business. In Europe and countries that have come under the influence of European laws and civilization, banks have gradually grown into joint-stock companies. But in the early decades of the nineteenth century, and anterior to it, banks were

generally one-man institutions and, in most instances, family concerns. The credit of the individual who owned the bank, or had the management of it, was the credit of the bank itself. It so happens, however, that when banks were owned by individuals their credits were extremely good; and we see the survivals of such institutions even to-day in the Coutts' Bank in England and J. P. Morgan & Co., in New York. Such institutions, however, have became rarities, because for several reasons one-man banking is no longer possible in Europe, except under extremely rare conditions. For one thing business in the world has grown to be so large that rarely has an individual or family enough capital to start a bank of any magnitude, and able to cope with the business offered. The success and growth of modern industrial development are due to the fact of the ability of certain individuals to collect and utilize the public savings for the benefit of national or international commerce. At all times, of course, the control of the trade and banking institutions has rested with particular individuals. The difference between the situation in the past and that of the present is that while in former times the individual in control was his own master or had only one or two masters to whom he had to account for his stewardship, the position to-day is that the individual in control of a bank has a large body of shareholders to give account to. While the rapid industrial development in advanced countries has brought about a change in favour of joint-stock business, the paucity of business in China, the mutual distrust engendered by the lack of efficient Government and communications, have contributed to retain business in China on the old

basis. Thus practically all business, including banking, is owned and is under the control of particular individuals. Especially banks have had to retain the old method of individual proprietorship, in order to command credit, with both foreigners and Chinese. There is also another reason why such a course has become a necessity. At a certain period after the beginning of active foreign trade with China, attempts were made to bring certain businesses under a sort of joint-stock control. The result invariably was a miserable failure, because of irresponsible and inefficient management, as also because there was no special individual to give account to. In Europe, there is adequate legislation to provide against delinquencies by managers of joint-stock concerns. In China there is no legislation of the kind and no means of enforcing the law. Thus after several unfortunate experiments native banking has remained even to-day individual concerns; in a few cases there are two or more partners but the largest number of partners known so far is four.* Under these conditions it is impossible that the business of a native bank could be ramified to even as small a degree as that of the smallest of joint-stock banks. The limitation of the number of partners in the business brings about a limitation in the amount of capital available for the business. Therefore, however rich the proprietor of a native bank may be, he has not the advantage of the foreign banks which in their very nature are able to control a very large amount of capital. The foreign banks are able to open business practically anywhere—

* There are half a dozen Chinese joint-stock banks working in China; but they have not achieved any great success, nor is their influence felt on the market.

their credit being altogether dependent upon the showing of the balance sheet; the native banks are dependent upon the credit of the proprietors which, in the very nature of things, can only be limited and restricted to a comparatively small area. Consequently the business of the native banks does not extend beyond a small radius. Individual credit being the main point at issue, inter-urban, inter-district and inter-provincial jealousies come into play and the scope of native banking becomes thus considerably restricted.

Working of Native Banks.

The business of a foreign bank is dependent more upon its reserves and deposits than upon the amount of its capital. As a matter of fact, except in the first few years of the existence of a foreign bank, the total capital plays only a secondary part in the business. The more the money available in the coffers the more the business of the bank and the larger the profits. The larger the total of the reserves the greater the risks the bank is able to take; it is well understood, of course, that the increase or decrease in the profits is regulated by the risks which the bank is in a position to take. With the deposits, the position is slightly different. While the bank may take risks with its reserves it can by no means take similar risks with the deposits. There is a great deal of profit, however, in using them cautiously while taking all precautions to save them from being lost. The native banks, on the other hand, have few of the facilities which come in the way of foreign banks as a matter of course. As a rule, Chinese have not understood the value of

reserves or depreciation. As all business, including banking, is generally owned by single individuals, or in rare instances by families or small groups, the profits are at once taken out of the business and the losses are deducted from the capital. In Europe, the main purpose of the management of joint-stock companies is to maintain the institutions, irrespective of who the shareholders may be. In China the object is to obtain profit for the proprietor or the proprietors, and everything, including the existence of the institution, is subservient to it. When this is understood it is easy to follow the working of native banking in this country.

Working Capital.

Besides the capital, these banks have few other resources to fall back upon by means of which they could prosecute a large volume of business. Excepting foreign exchange, the native banks do practically all other kinds of business done by the foreign banks; and knowing that their capital is very small, as compared with the volume of business passing through them, it is necessary to enquire into the means they employ to obtain capital and to finance the business that comes in their way. It is as well to know at the outset that rarely has a native bank a capital of over Tls. 100,000, and rarely has a native bank a branch outside of the province in which the head office is situated—as a matter of fact the great majority of the institutions do not work beyond the limits of the town or district in which the head office is situated. There are, of course, a large number of these institutions in all parts of the country, but not sufficiently

numerous, as compared with the number of branches of banks that exist in the several European countries. In any case, it is beyond doubt that these banks must have much more than their capital to do the business they are, and have been, doing. Of course there are the Chinese deposits. But there are no public deposits in this country as known in other countries in the world. The average citizen of China has always been too poor to be able to have anything to do with even the smallest bank. The moneyed classes in this country have for centuries been either officials or merchants. The intercourse between these two classes is quite natural, and it is a curious fact that while the official is always anxious to do some business or other with his own money or the Government's money under his control, the merchants usually hopes to become an official some day. Owing to the very nature of the Government, the business-man must be in the good graces of the officials to get on in life; the official cannot afford to antagonize the merchant who is usually a member of some guild or other; and it is well known that, while merchants as individuals are absolutely powerless, as members of a guild they are extremely powerful. It thus happens, therefore, that the merchant and the official work hand in hand. One of the principal sources of working capital for the native banks is the deposit of official money with the banks. The financial system of the Government is on the basis of each district sending its surplus to provincial administrations and each province sending its surplus or a fixed amount to Peking. After the taxes are collected the disbursements have to be made, totalling the larger part of the collection and

the money has to remain somewhere in the interval. Until recently there were no Government treasuries or banks and, even when they came into being, the officials with the tacit agreement of the Government deposited the revenue among all the native banks that were members of the guild. No doubt, they received a small interest which became the perquisite of the local officials; but the banks were able to utilize the money very profitably to themselves.

Besides official money there are, of course, the deposits of all the merchants. These deposits were made not with a view to safe-keeping of the amount with the banks, but in order to be able to overdraw from the bank when necessary. It is understood that no one in the world does business just to the total of his capital and no more. The bigger the business the larger the credit which it has to depend upon. The position with regard to Chinese trade is no different in this respect from business in other countries.* And like the banks, the Chinese dealers did a business, enormously large in proportion to the capital they employed. Therefore the deposits with the native banks were of very little value in the way of sustaining the credit or business of banking. As I have already stated, there are very few idle depositors with the banks, like the investors of England or the rentiers of France.

Under ordinary conditions, it would mean that trade was carried on with the aid of the Government deposits with the banks. Of course this was so, for a while; but that even proved insufficient. The native banks

* Only in China it was clean credit. There never was credit in business—as it is understood in foreign countries—in China.

had soon to find fresh means of obtaining working capital,* and the business of the bank had to be maintained. In the last two decades of the last century they turned to the foreign banks for help.

Chop Loans.

All foreign business was done exclusively through foreign banks, and a large amount of Chinese money also found its way into their coffers — mainly from the point of view of safety and security. At any time, as even to-day, a large portion of the Chinese money in the vaults of the foreign banks was anxious for profitable employment. When the Chinese banks approached them they naturally jumped at it—only so long as the danger and risks were minimised as much as possible. An arrangement was arrived at by which the different native banks were to have certain amounts on loan —according to the standing and credit of each bank—from day to day. This was clean credit and corresponded to "call money" in Europe. The pecularity of this loan is that it might be called in at any moment by the lenders, it thus being understood that the borrowers should be able to pay back the amounts within a few hours of the call. It might be asked :—if the native banks resorted to the foreign banks for working capital, how could they pay back when "called?" If the native banks borrowed the money and employed it in trade, it is very probable that they would not be able to pay back when called. It does not usually happen, however,

* This was due partly to the transference of the deposits of official money to the so-called Provincial Government banks.

that the foreign banks call in their loans without sufficient notice. Secondly, chop loans, which are necessitated by the trade in imports are usually set off by the cheques given to Chinese dealers by foreigners who obtain export goods from them. These balances are struck from day to day and hence the adjustment is not so difficult as it may appear at first sight. Thirdly, even should one native bank not be able to adjust a chop loan to a foreign bank or be not able to pay up when called, it can always raise a loan from another bank on the security of goods, and so meet its obligations and maintain its credit.*

BANKING AND TRADE.

The purpose of banking and the aid it renders to trade is probably the same in this country as in any other part of the world, where there is an elaborate system of banking. But there is a fundamental difference in the practical application of the principle of the help rendered by banking to business. While in Europe the growth of banking is following the lines of using as little money as possible for the conduct of as big a trade as possible, in this country on the other hand the growth of banking has been concommitant with the increased use of money in paper, silver or coins. While in Europe and in other parts of the world the main purpose of banking has been to facilitate credit as much as possible, in China banking has developed along with the restriction of credit. While in Europe the

* During the banking crisis that followed in the wake of the Revolution of 1911, many native banks were unable to return chop loans. Even in 1914 a large balance was outstanding. Consequently, foreign banks stopped giving chop loans to the native banks.

tendency is for banks to have as little to do with actual trade as possible—their function being limited to financing trade—in China growth of banking has been parallel to the enlargement of the interests of banking in actual trading.

The result of the growth of banking, as it has taken place in China, has been an inevitable mix up of trading and banking. How is it that such a tangle came into existence? No doubt there are institutions which do banking, pure and simple; but on a whole circumstances have conspired to bring about a situation, which has proved beneficial neither to commerce nor banking. The very fact of there being no proper money, or medium of exchange, proved a check to the growth of banking on proper lines in this country; it has always been the case ever since the dawn of history in this country that business meant not only the exchange of commodities for money but also business in money. There is a double transaction in every business; one is the fixing of the value of the commodities and the other is the fixing of the medium of exchange, or what is for the time being known as money. It is therefore evident that, even supposing the banks had nothing to do with business in commodities, they had to do business in money besides their regular routine of banking. Two centuries ago the situation was somewhat similar in Europe; and even as late as the fifties of the last century there were about sixty different currencies in what is now known as the German Empire. Even before the adoption of the gold standard, conditions in Europe tended to simplify the difficulties encountered by banking as banking. Even though gold and silver circulated side by side

and were independent of each other, there was more or less a fixed ratio between the two metals. And although this relation was many a time upset, for various reasons, readjustment took place within as short a period as possible. Even when Europe had no standard it was understood that only gold and silver should serve as money and that with slight variations the relation between gold and silver should be on a certain basis. In this country, on the other hand, the difficulties in the path of banking were several. First of all, there was copper, which was considered as money besides gold and silver. Secondly, the unit of currency in this country has been, and remains even to-day, the lowest ever known on earth; and the value of even this cash varies with different places. Thirdly, apart from gold and silver, commodities like silk have served the purpose of money even during recent years.

It is no wonder then that, from its very inception, banking in China should have been confronted with two alternatives: either to do business in the several metals and commodities which served at several periods as mediums of exchange or to go out of business altogether. The primary object of any business, including that of banks, is to make profit; so long as such was obtained by what was commonly understood as legitimate means there was no reason to object to it. In the early years of native banking there was nothing to do but to follow in the wake of other business, if the banks were to prove a source of profit to their proprietors. It is only human for the proprietors or managers to follow the line of the least resistance in the conduct of their business.

Cheques and Native Orders.

Later on, however, especially during the last three decades, the native banks did what they certainly would have preferred not to do, if they could have helped it; they themselves plunged directly into business. In order to understand how this situation was brought about, it is necessary to give in brief a detail of the modus operandi of native banking vis-à-vis foreign merchants and Chinese dealers. The usual method of doing business is for the Chinese dealer to come to arrangement with the foreign merchant as to the price, date and place of delivery, etc. When the transaction is complete and all other stages have been gone through up to the time of taking delivery of goods, what remains to be done is simply this; that the Chinese dealer pays the foreign merchant and takes delivery of the goods. It would suit foreign merchants admirably if the native dealer paid them by cash or cheque. But the latter never does it even when he can do so. He follows the old custom of keeping back the money during the interval that the goods are supposed to take to reach their destination and the monies are sent from there. As a matter of fact, the arrangements rarely take cognizance of this old convention. The only interest which the dealer has in postponing payment is the saving of interest for the number of days he is able to delay payment after taking delivery of the goods. At the same time, the foreign merchant is not willing to give him any credit for various reasons into which it is needless to go in detail at this stage. A compromise is arrived at as follows: The dealer takes delivery of the goods on payment of a native order to

the foreign merchant — a native order being an order of a native bank. These orders have practically the same value as post-dated cheques; but there is a world of difference between a cheque and a native order. In the case of cheque an individual draws on a bank, i.e., gives an order to the bank to pay on his account a certain sum of money to a third party, from out of the sums which stands to his credit in the books of the bank. The bank has nothing to do with the trustworthiness or the validity of the cheque, and refuses payment if the drawer of the cheque has not a sufficient amount in credit with the bank to meet it. With a native order the case is different; when a dealer gives a native order in exchange for the goods he does not undertake to pay at all. The native bank agrees to pay a certain amount to the person that presents that piece of paper on a certain date. The merchant has no further relations with the dealer who presents the native order, and he has a perfect right to look to the bank and the bank alone for payment. No doubt, arrangements are made with the bank before it gives out the native order to the dealer; but that is no concern of the foreign merchant. In the olden times the moment a native order was received the foreign merchants simply let the Chinese dealer alone. When, however, during recent years the banks were unable to meet their own orders, the merchants thought it best to hold the donor of the order equally responsible with the bank.

How Native Orders Were Abused.

At one time the native order had an extremely high value and it was generally

accepted that all orders were quite as good as money. The principal reason of the degeneration of these orders was the entrance of banks themselves into actual trading. So long as the banks were only guaranteeing merchants, and so long as the dealers were sound people, there was no trouble whatsoever. But with the increase of foreign trade there was a larger addition to the number of Chinese dealers, as to the number of native banks. Especially in the eighties the profits made in foreign commerce, both among Chinese and foreigners, were considerable; consequently a large number of people were attracted to this trade. Among foreigners, more and more members of new nationalities were rushing into the commerce of China; and a correspondingly large number of Chinese were ready and anxious to take advantage of the competition among foreigners. The position was as follows: The new Chinese dealers were men of little substance quite as much as the new banks that they patronized; the new foreign merchants could not be very scrupulous about the credit and soundness of the native orders that were given them, because of the necessity of selling as much as possible and competing with the then existing foreign trade. There was a considerable element of risk in this; but the general body of people who enlarged the scope of foreign commerce in China were not attracted to the trade by dishonourable motives. All that the Chinese dealer, who had not sufficient capital to trade with, or the new native bank, that had not sufficient capital to work with, wanted was a little delay in making payments. In other words, they wanted to get goods into their hands for a period which would give them time sufficient to market it and give the cash to the foreigner.

The foreign merchant on the other hand wanted buyers for his goods; and he did not much mind if he received the money a few days later than the usual period.

Overtrading and Banking.

If there was room for the marketing of all the goods that came into the country, in an easy manner, it is possible that this new development in banking and trade might not have worked any harm. Unfortunately, there was no clear grasp of the economic position of the country either among the Chinese or foreigners. If, as during the early periods of foreign trade, China was able to sell to foreign countries as much as it was willing to buy, this new development with regard to banking might have proved a help instead of a hindrance. The position was that, without sufficient exports, over-trading in imports threatened to bring about serious results. As the banks guaranteed all payments, there came a stage when the established and bigger banks had to prop up the credit and business of the new banks, which were more or less unsound. Even then there appeared to be no relief. If the Government had supervision over banking or the bankers themselves had a proper understanding of economics, they might have made efforts to relieve the situation by special efforts to encourage exports. It is an unfortunate fact that there was no concerted action on the part of bankers, merchants or the Government. All that the banks saw and felt was that the native dealers had obtained large credits in the shape of native orders from them; that foreign merchants had collected large sums from them which had not been paid

back to them by the native dealers—and there was still more to pay; that the large quantities of goods in the hands of native dealers proved practically unsaleable for various reasons; and that the only course possible for the banks, with a view to safeguarding their interests, was to take over the goods. Thus was laid the germ of the trading by native banks—an action fraught with serious results for the future of business in this country.

Banks as Merchants.

It is, therefore, evident that the banks began to do the regular business of buying and selling commodities through sheer force of circumstances. Such a course is followed also by modern European banks when they are forced to do so. For instance, if a merchant borrows a large or small sum on the security of his cargo or any other property, and if he does not pay up after repeated demands, the bank has a perfect right to sell the security and realize on the property the amount given out on the loan. If the cargo or property realizes more than the amount of the loan the balance is handed over to the merchant; in the alternative case the merchant will still be owing the difference between the amount of the loan and that realized on the sale of the cargo or property. Thus, whatever trading is undertaken by modern European banks, either in China or in any other part of the world, limits itself to the realization of the amount lent by them. It is unnecessary for me to state that when granting loans the banks take care that there is sufficient margin in the security to permit of easy realization of the loan. Sometimes, however, values change so rapidly

and prices fall so heavily that the contemplated margins no longer exist; then, of course, the banks have not only to realize on the security but also to follow the regular process of trade in order to obtain the most advantageous terms for themselves as also for their embarrassed client. When the banks are thus obliged to do business in competition with the regular trade, they do so with the utmost reluctance; hence they generally avoid entering into transactions which may lead them to adopt a course which they dislike—a course which cuts into the business of their clients.

The position with native banking is not on all fours with that of foreign banks. In contradistinction to the situation with regard to foreign banks, native banks have a small capital to do a big trade with; hence they expect a rapid turnover with the money they loan out through the medium of native orders; they expect to receive it at as early a date as possible—that is as soon as the goods are sold by the dealer at the ports to the dealer at the outports and in the interior. In principle, of course, there is no credit in business among Chinese; in practice there is a vast system of credit on a very loose basis. In other words, the native banks, which would like very much to do business without any credit whatsoever, have been obliged to extend a vast system of credit in order to keep their business going. When the trade was of fairly small proportions the dealers were few and well-to-do; they availed themselves very little of the credit offered by the banks, and whenever they had an obligation they were able to meet it scrupulously. But when trade grew bigger, both the number of dealers and the banks increased; while the system of credit had been

extended considerably the merchants were not able to meet their obligations scrupulously. Whatever causes may have controlled the position, the problem in front of the banks was how to let the trade go on—as also prevent dislocation of business. When huge profits were made out of the import business every dealer—who had any capital whatsoever—presented a huge vista of profits to the banks and obtained the loan for the value of the goods on nothing more than the security of the goods alone. There was thus no margin for the bank to fall back upon in case of trouble. But there was a general belief or hope that the goods bought from the foreign merchant could be sold immediately after the purchase—and at a large profit. Of course, these hopes and beliefs were, for a while, justified; but very soon it was found that import cargoes were not always gold mines to the native banks or to the Chinese dealers. Thus, the accumulation of unsold cargo for which the banks had granted orders was growing bigger every day.

Fixing the Responsibility.

Although the dealer that bought the cargo from the foreign merchant was responsible for the honouring of the native orders, the latter turned to him only when the banks did not pay. Naturally the first parties which had to bear the brunt of the crisis were the Chinese banks. The usual practice is for the foreign merchant to send the native order to his bank immediately on receipt to be placed to his account—the foreign bank tacitly agreeing to collect the money for him from the native bank. As is well known the process of the adjustments of accounts is not on the basis of every single order

received by the bank. In the course of ordinary business the foreigners sell and deliver their goods upon the receipt of the native order and the Chinese sell and deliver their products on the receipt of the cheques of the foreign merchant. Just as the foreign merchant sends the native order to his bank for collection and to be placed to his account, so the Chinese dealer sends his cheque to his native bank for collection and to be placed to his account. A sort of clearing house arrangement exists by which all the cheques in the hands of the native banks are adjusted with all the orders in the hands of the foreign banks, and the balance struck. There has always been a certain amount of give and take between the banks, and the cheques and native orders from untrustworthy parties are weeded out. Nevertheless, in the ordinary course of business, the banks could not be over-scrupulous in the acceptance of either—when especially they are presented through and by the banks. But there is this difference; the foreign bank does not take responsibility for the payment of a cheque drawn on it, except when marked "good for payment"; on the other hand, the native orders are all given by the Chinese banks, irrespective of the trustworthiness of the dealer who presents such native orders. The result was that, while the standing of foreign banks was in no way affected by dishonouring of the cheques drawn on them, the position of the native banks was affected by non-payment of the native orders. Consequently when smaller native banks became embarrassed the bigger ones had to come to their rescue and pay up the sums due on the native orders—in order to preserve the credit of native banking as a whole. At

first this process began as a matter of accommodation; later on, however, when sound native banks saw further accumulations of cargo as a result of holding the weaker banks up, it became incumbent upon them to drop a few of the weak ones; and the foreign banks and merchants were notified of the fact that orders issued by certain banks could be taken only at their own risk.

Further Complications.

Even then the native banks had not begun to trade. They were simply pressing the dealers to sell as much as they could and return the amounts due to the banks. What with the fall in exchange, the heavy competition among foreigners and the large cargoes remaining in the hands of merchants, prices were dropping fast; the Chinese dealers became panicky, as they usually do when prices fall, and commenced to sell at any price. The native banks, in most cases, had no other security for their loans but the goods bought with them. They were anxious to prevent the loss, if possible; and the only way open to them was to take over all the cargoes and sell them themselves. That would certainly have proved an ideal plan, if there were any means of stopping sales by foreigners, even for a short period. The dealers, now rid of the heavy liabilities they were under for a long while, were quite ready to take up fresh business, on the basis of reduced values, which had been brought about on account of competition and heavy decline in foreign exchange. The native banks that took over the goods from these dealers did certainly not bargain for this; they expected that the capacity of the dealers for business was for some time at least considerably reduced and

that they could use the dealers themselves to sell goods whenever favourable opportunities arose. Merchants, both foreign and Chinese, were year after year hoping that the fall in exchange would prove temporary; also that the new foreign merchants would soon realize that the capacity of China was over-estimated and thus competition would be reduced. This has remained the hope of everybody engaged in Chinese trade for the past thirty years, in spite of the fact that there has never been a vestige of the signs of its fulfilment.* There was, therefore, some excuse for the hope of the native banks, that were then heavily saddled with merchandise, that there must be at least a slightly more favourable turn in the state of affairs. What actually happened was that the dealers began to do business quite as heavily as before; that new native banks arose to accommodate them and that the foreign merchant himself was willing to grant the dealers greater facility than was ever offered them previously. The native banks that came into being as a result of the new turn in business were not all untrustworthy; some of them were quite as good as the older and creditable banks. As a matter of fact, however, the really strong banks that opened business on this occasion were started with a view to do business in commodities, with banking as an auxiliary business.

Dealers Become Middlemen.

From every point of view the situation was serious for Chinese banking, and it was generally felt that something must be done

* I do not take into consideration conditions that have arisen on account of the European war in 1914/15.

to avert the crisis. However complex the interests of individual bankers might have been, it was apparent that there was an esprit de corps among the bankers, and the Bankers' Guild thought it time that something was done. But there was a real difficulty in regard to the position of the banks which had grown during a number of years into more of business houses than banks. Therefore, it resolved itself into a conflict between the bankers and the dealers. With rare exceptions, the dealers were usually men of very little substance, while the banks, comparatively speaking, controlled all the wealth of commerce—except in very recent years and in isolated cases. Business between the Chinese and foreigners has been possible only through the medium of native banks; and the dealers were certainly not in a position to offer any organized opposition to native banking. As a result of several conferences —mostly unofficial—it was agreed that a better control be exercised by the banks over the credit of the dealers. And the dealers themselves arrived at the wise conclusion that they had better accommodate themselves to the banks as much as possible. The result was that with the gradual progress of years, the dealers became practically middlemen, while banks became the real dealers who, for a time at least, acted practically without any opposition from Chinese dealers.

Russo-Japanese War and Banking.

This state of affairs continued for only a very short while, i.e., from about 1905, when there was a boom in imports at the close of the Russo-Japanese War, till 1911, when the

revolution brought about a radical change in native banking. Apart from the political consequences, the Russo-Japanese War has had a very important bearing on trade and banking in this country. At the time when the banks and dealers had arrived at a modus vivendi practically with a view to restrict the volume of imports, exaggerated hopes were raised on account of the sudden termination of the Russo-Japanese War in a manner which was certainly unexpected. Merchants, both foreign and Chinese, were misled as to the capacities of the Manchurian market; it was thought, with some reason no doubt, that a province of nearly a million square miles and possessing vast tracts of the most fertile land, should be able to consume enormous quantities of foreign goods. Such reasoning left out of calculation the fact that, although the province was huge, it was very sparsely populated; nearly half the area was still under Russian control, the significance of which was that foreign trade was as impracticable in that region as it was when the whole province was under the domination of Russia. Even these exaggerated hopes could not have brought about a boom in import trade, but for the heavy competition among merchants of the different nationalities in this country. It was then a race between all nations to capture as much of the new trade as possible; each national sent out huge orders for goods for prospective sale in the Manchurian provinces and thus the market was overflowing with cargo. The Chinese were also in the swim; in all matters of business they generally blindly follow the foreigners. Naturally they shared in the hopes of the foreigners about prospects in the Eastern provinces. Luckily for trade there

was a rise in exchange owing to causes which had nothing to do with the position in China; and the advantage of having to pay less silver than usual for the same gold-priced goods was specially apparent to the Chinese dealer. As I have stated already, the banks had already begun to do business, the original dealers performing only the functions of cargo brokers. At that time, they took in the bait, the result being a further addition to their already heavy burden of goods. It is well known how the Manchurian market proved to be thoroughly disappointing, and how in 1907 the imports dropped nearly to half the total of the previous year.

Although the position of currency and banking has been detrimental to commerce for a long while, it was never so seriously felt as after the debacle of the Manchurian boom. Apart from currency there were schemes for the reform of banking galore; but the native dealers or bankers were not in a mood to listen to any schemes of reform in their then state of affairs. The dealer had already been playing second fiddle to the banks and at that time his occupation was gone, for all practical purposes. The native banks absolutely refused to grant any orders to dealers except for such of them as were practically in their employ. By this action they alienated the support of two parties; the rich dealer who had wealth enough, but whose capital was tied up for the moment in goods, and the poor man who wanted to profit out of the sale of goods but could not get credit in the shape of a native order. In other circumstances, it is probable that not much importance would have been attached to this development; but as the native order had been recognized as the proper vehicle of trade,

something had to be done to prevent any possible dislocation. What really happened was that the system of native orders was continued by the richer dealers themselves opening banks, and the poorer dealers inducing men of straw to start banks and grant native orders. All the arrangements arrived at before the Manchurian boom thus came to naught; and for a while at least it looked as if things had adjusted themselves to changed conditions.

Banking and Paper Money.

At about this time the official banks, to which I have already made lengthy reference, were throwing out large quantities of paper money. They were glad to take hold of every opportunity to put their money into circulation and the new native banks helped them considerably. Want of capital was, for a while at least, no check to the growth of the business or existence of the unsound banks. Very soon, however, the hollowness of the whole position became apparent; but that did not militate against the fact of their having been able to do a very large business for a few years. It is worth while describing how that happened.

The foreigners, especially the new-comers, were anxious to introduce their goods into the market; and although they did not like the situation with regard to money, they were still willing to take risks which people with experience in China were absolutely unwilling to take. One of the risks that the new-comers took was that of accepting the unsound paper money, which was freely distributed through the questionable native banks. In this connection I should not omit

to mention that a few—although very few—of the newly started native banks followed official ones in providing themselves with capital through the medium of the printing press. The foreign Chambers of Commerce protested against the arrangement; but it was found that there was no determination on the part of anyone connected with the trade to put an end to this nuisance. No doubt there was the ever-present danger of having to throw all this paper into the waste-paper-basket—paper which was without question being accepted as money. The Chinese were at first chary of accepting this paper, but when they found that the foreigners took it they also took it reluctantly. Under other circumstances, if the import and export trade had balanced each other, there might not have been any difficulty. What really happened was that when foreigners accepted the notes as money they were able to induce the Chinese holders of produce to accept this same paper. These produce holders at first hesitated; but the native banks were willing and able to take the paper back without any difficulty whatsoever—especially as all business had to be done through the banks. Without being money in the proper sense of the word, paper money served as the medium of exchange between exports and imports; and the banks had enough silver to adjust the balance one way or the other. This paper, however, was of little value in the distant parts of the interior. The banks had to finance the exports with silver while, for various reasons, import cargoes would not sell and no silver was coming in to replenish the depleted coffers,—which were always replete with paper. Even attempts to sell the stock of cargoes with the native banks to the interior at heavy

losses proved futile, because of the sudden and artificial expansion of trade.

Banking and the Rubber Boom.

For about four years before the final debâcle of 1911 native banking was in a most precarious position. Most of the banks were unaware which day would be their last. They were using makeshifts by selling goods at heavy loss, and thus obtaining liquid capital to work with. There was for a time certain amount of slackness in imports, while the proportion of exports was increasing. Still, however, they were always attempting to follow some course which would bring them a fair amount of profits and cover the losses which they had been undergoing for some time. They took to all kinds of speculations, including land, foreign stocks and securities, and worst of all, rubber shares. It unfortunately proved a succession of losses to them. Anything the banks took up in the way of speculation failed and, with the collapse of the rubber boom, began the collapse of native banking, as it was then practised in China. The craze for speculation was great and in a few cases dictated by considerations of final efforts to save themselves from bankruptcy. Cargoes, land, building or anything that would serve as security were mortgaged in order to get necessary capital with which to gamble. Like everybody else, the Chinese thought that the rubber boom was a Godsend to them; the native banks indulged heavily in speculation in the hopes that the advance in share values would continue and the losses incurred in the course of business for years might be made good. As a matter of fact the losses were not made

good, but increased several fold; and the result was that over half of the native banks, in Shanghai and the ports, had to shut their doors.

The Revolution and Banking.

The crisis in native banking was brought about very suddenly by the revolution of 1911, which converted the Middle Kingdom from a hoary empire into a new-fangled Republic. Even in the ports where paper money was freely accepted there was a certain amount of suspicion always inherent with regard to the issue which had no apparent support. It was also a notorious fact that the people who accepted the notes did not look into the question even as much as the bankers; all that they were interested in was in making a squeeze out of the exchange. The revolution brought about a sudden disturbance in the credit. The native banks were assailed from both sides; while on the one hand the foreign banks were pressing for immediate payment for whatever chop loans they might have given to the native banks, the latter had not even the benefit of using Government money, which was generally deposited with them by local officials. On the latter score the banks had suffered even a few months before the revolution, because of the anti-Manchu agitation in various parts of the country; and with the several local disturbances the Government had practically no revenue at all. When a sudden change in the situation was brought about by the complete destruction of credit there was no course open to the banks but to close their doors. This state of affairs in Shanghai and the ports reacted on the banks in the interior

—especially as for a considerable time past they had no silver to meet the notes. Thus, all of a sudden a transformation took place, as it were, by a magician's wand; and for a time at least no paper, not even the notes of the reputable and trusted foreign banks, had the slightest value in the eyes of the Chinese, even in ports like Shanghai. In view of the fact that all notes issued by Chinese banks were dollar notes, the dollar attained a value never before known in its history; I should have mentioned earlier that during the Boxer crisis paper was again at a large discount and the dollar was at a premium—although not as much as in 1911. The banks crumbled to pieces one by one, and as early as November of that year, or in the second month of the revolution, the number of the banks left was a tenth of those existing prior to 1910—the rubber boom and the various local disturbances having already weeded out nearly half of the then existing native banks.

Banking After 1911.

After all, the revolution was of great benefit to native banking in that it stopped altogether private issues of bank-notes, besides the trading of the banks in commodities. The banks that survived the two crises of the rubber boom and the revolution were those that never issued any paper money and did a minimum of trading. In spite of their caution these were also badly hit; but as their assets were in loans on commodities — however much unrealizable at the moment — rather than in commodities, they were able to hold out. The compulsory weeding out of the banks resulted in enormous

losses to dealers and banks; somehow or other, such losses did not have a permanent effect on the growth or continuance of the trade and banking in this country; this was probably due to the extraordinary recuperative power of China. A few months after the close of the revolution new banks were started; although some of them were not quite sound, judged from the point of view of the canons of modern banking, they were certainly better than the average ones of the previous year. Gradually the numbers of the then institutions increased, although even in 1914 the total was about one-third of that of 1910.

All these banks, however, do little else besides banking in the proper sense of the word, with slight modifications to suit local conditions. These banks are, to a large extent, substantial. None of the banks have any Government deposits to do business with, for the Government has had very little revenue to speak of, either in Peking or in the provinces; and it has definitely been arranged that all revenue collected should be passed into the Bank of China—wherever it has branches—because that institution practically corresponds to the Government treasury. * Secondly, the foreign banks decided to do away with the chop loan, mainly because of the large element of risk attendant upon giving unsecured loans to the Chinese, and partly because a large number of Chinese banks were unable to return chop loans during the crisis of 1911 and some of the banks even continued to owe on this account at the close of 1914. Apart from this, the Government was borrowing large sums of money to help carry on the Administration,

* The Bank of Communications receives the revenues of the railways.

and the foreign banks that controlled the Reorganization loan had a decided objection to a return to the old state of affairs.

The changes brought about by the revolution, or those that helped the banks are Government issues of notes and the disappearance of the Shansi banks. Although the revolution stopped the private issue of notes, since the beginning of 1912, when the Nanking Military Government issued paper money, the provincial Governments have thrown out very large issues. With the experiences of the former paper issues still fresh in their memories the people would at first have none of any more paper; but with the help of large numbers of unruly soldiery, and penalties for refusing to accept paper, the provincial authorities have been able to force circulation. As on previous occasions, the Governments made no pretence of holding any reserves for the paper they issued; and it must be said, in palliation of such an unjustifiable step, that extreme pressure for funds alone made them take such a course. Anyhow, this paper money, which is said to have amounted early in 1914 to about $200,000,000, was in circulation and at heavy discount in the market. These issues, however, helped the native banks, in that practically all such money had to be distributed through them; and helped them in the way of supplying them with a certain amount of capital, without paying for it.

The disappearance of the Shansi banks was indeed a very valuable help to the existing native banks. In certain respects, however, business has been dislocated by the sudden disappearance of institutions which were performing important functions for over eight centuries. The dispatch of money and the sending out of drafts between distant

places are invaluable adjuncts to trade; and these were precisely the functions of the Shansi banks. When they closed their doors the native banks have had to do this business. It was not done quite satisfactorily, because the public had not the same confidence in the latter, which had for centuries been purely provincial institutions. The Government institutions like the Bank of China, and the Bank of Communications, have been taking up a great deal of the business of the Shansi banks; and in conjunction with these institutions the native banks are also benefiting.

Conclusion.

I believe I have given a brief and satisfactory statement of the history and position of banking in this country from the earliest times up to date. Although, as an institution, banking has existed in China at a much earlier period than probably in any other part of the world, the development has been stunted so much that compared to the situation in Europe to-day, banking in this country is in a very elementary stage. The one point which the Chinese banks have never understood is the importance of reserves; of course, the confusions arising out of an inchoate position of currency must answer a great deal for the stagnation of banking. I have refrained from going into the position of foreign banking in this country, because my thesis has nothing to do with the progress or development of foreign banking in this country, except as co-related to native banking.

BOOK II.

Chapter VII.

THE STANDARD OF VALUE *

The comprehensive summary of the position and development of currency and banking in China which I have made, is, I believe, sufficient to form an adequate groundwork of constructive reform. The several schemes that have been proposed so far are faulty and incomplete, in view of the fact that the proposals have taken one or other of the several aspects of possible reform and constructed details on insecure foundations. Reform loses value and effectiveness if the foundation on which it is built is too narrow, or shallow. No reform could be perfect, if it did not take into account every detail of the administration. But that does not imply that the reform of every department should be taken in hand at one and the same time. The implication is that a thorough reform of one branch of the administration of a country is neither possible nor could be satisfactory if others are not properly attended to. But there are certain branches of the administration which need attending to before others; and there is at least one branch of any Government, i.e., finance, which has to be attended to before everything else. To have a proper system of finance there must be a proper currency, and not the haphazard ones that we have been having in China; and to introduce a

* For many of the facts in this chapter, I must acknowledge my indebtedness to "The Standard of Value" by Sir David Barbour, K.C.S.I., K.C.M.G., and "Indian Currency and Finance" by John Maynard Keynes.

proper currency there must be some system of banking, based upon a better foundation than that of the best of existing native banks, or even the Governments' Bank of China or Bank of Communications. The point that I wish to emphasize, in this connection, is that no reform of currency is possible or practicable without a reform of banking and vice versa. Hitherto several well intentioned proposals have been made to reform currency or banking; and the two have rarely been tackled together. Dr. Vissering is the only authority that has ever drafted proposals for the reform of currency and banking—not, however, together. I have already referred to his currency scheme. The reason why I have not made, so far, any reference to his reform of banking is that he takes absolutely no cognizance of the past and the present state of banking in this country, and goes on simply elaborating a scheme for a central bank for China—an institution the formation of which he advocated in the course of suggesting a solution for the present tangle of currency. It is surprising that such a high authority as Dr. Vissering should have altogether ignored the existence of the present banking institutions which wield not an inconsiderable amount of influence over Chinese commerce; nor to the Bank of China which, at present, is doing everything which Dr. Vissering has proposed a central bank should do, except making profit out of the inconvertible notes or token silver and copper coins. Even in his scheme of currency reform there is the briefest reference to the existing position; and he never once mentions the fact that the cash in this country is the standard in even a more correct sense than the sovereign is in England. The only authorities that have proposed schemes for

reform with due regard to the traditions of this country and the prevailing conditions that have to be taken count of when making any innovations, are Chang Chih-tung and Sir Robert Hart. Even Sir Robert Hart fell into the error of taking too much count of the foreign trade and too little of the internal situation—an error pardonable in a man who has been directly responsible for the large growth of foreign commerce in this country and who had no experience in banking. Chang, of course, had no experience or knowledge of economics of any other part of the world but China.

The Battle of Standards.

The question that has been discussed for nearly thirty years and on which there seems to be no unanimity of opinion, is: what standard shall China adopt? The consensus of foreign opinion has been in favour of the gold standard, principally because the money of the home countries of foreigners is in gold; and they believe that the sale of their commodities in this country is being considerably affected by the vagaries of the constant fluctuations in silver values. Their solution is naturally to do away with silver and have a fixed value for money in gold as in their own home countries. The consensus of Chinese opinion, especially Chinese of the old school, is that the standard should be silver; the reasons are that they do not want to break away from an age-long tradition and also the fact that in contradistinction to the attitude of foreigners, they want to sell more of their own produce to foreigners than they buy from the latter; and for that purpose, so they say, silver as a standard is

certainly more advantageous than gold. A third class of opinion is in favour of a compromise; and as the standard has to be in gold or silver, according to the convention of the world, they propose a modified system known as the gold exchange standard—to which I have already made a brief reference and with which I will deal later on. The advocates of this system, like Dr. Vissering, are interested only in doing away with the constant change in the value of money in relation to gold; they point out as examples of the successful adoption of this system India, the Dutch East Indies and the Straits Settlements—the argument being that what is good for these countries should also be good for China.

Gold and Silver.

Before proceeding with the discussion of this question it is necessary to preface my remarks with a brief history of the use of gold and silver as currency. All records point to the fact that in the dawn of modern civilization silver was the standard of value, although gold also was money and was coined. It is known that gold was coined in Constantinople even after the decline of the Western Roman Empire. In England silver was the standard and up to the forty-first year of the reign of Henry III, and gold was not coined at all; after that gold and silver were both coined, although not only the coins issued in England but also foreign coins, whether of gold or silver, were the legal monies of the realm. In Shakespeare's plays frequent references are made to pounds, marks, francs, and Florentine money, besides groats and nobles. "The several Governments in

Europe possessed and exercised the right of deciding the rate at which the coins of every kind should pass, or be, in modern language, legal tender;" it made no difference whether such coins were minted in the state or belonged to another state. In the reign of Henry VIII the numerous states in Europe altered the relative value of their gold and silver coins so often that the position in England became really embarrassing. At that time in Europe it was believed, as it is in China to-day, that the wealth of the country depended very largely on the quantity of gold or silver money which it possessed.

During the reigns of James I and Charles I frequent alterations were made with the object of attracting one or other metal, with the result that while the country was denuded of silver at one time it was denuded of gold the next.

The discovery of precious metals and the increase of the available quantity of both gold and silver altered their relative values materially. I cannot do better than quote from Dr. Shield Nicholson's work, Money and Monetary Problems, anent this subject:

"In the sixteenth century the new supplies of precious metals were obtained from Spain, through her discoveries and military successes in America, and were largely squandered in ambitious political schemes in Europe; but in the natural course of things they soon found their way into the great channels of trade. At that time the Netherlands held the commercial supremacy of the world, and Antwerp was the queen of the Netherlands. It was almost entirely by trade that the Dutch amassed their wealth. The celebrated description of Holland, written about the

middle of the seventeenth century is equally true of the sixteenth. "Never any country traded so much and consumed so little; they buy infinitely, but it is to sell again. In short they furnish infinite luxury which they never practice, and traffic in pleasures they never taste." It was then through the great cities of the Netherlands, with their wide-spreading trade conditions, that the treasures of Mexico and Peru were diffused over the world, and no one is surprised to hear that Antwerp was the dearest city in Europe.

"It would however be a great mistake to suppose that even in the sixteenth century, when credit was comparatively, and, according to our notions, quite undeveloped, this distribution of new supplies of the precious metals took place, without any other noticeable result than a general rise in prices, accompanied by a natural increase in production.

"In the sixteenth century we find that, at the very time when England was beginning to feel the effects of the new treasure, all commodities of Greece, Syria, Egypt and India were obtained much cheaper than formerly—presumably owing to the fact that, by direct trade through Turkey, the charges of the Venetian carriers were dispensed with.

"We find also that careful and prudent monarch Queen Elizabeth, aided by still more careful and prudent counsellors, issuing regulations, on the one hand to check the growth of London by actually prohibiting new buildings, and on the other hand, by granting privileges and monopolies to other towns, to restore their former prosperity.

"It was peculiarly difficult for the people of that time to estimate the force of discoveries of the precious metals; for, apart from currency causes, influences were at work

which were effecting great changes in relative prices, and, consequently, in production. Even before the mines of Potosi were discovered, England's wool had begun to rise in value, owing to foreign demands." *

Currency in England.

During all this period there were frequent and constant supplies of silver, just as the process of coinage was attaining perfection. Currency, prices and coinage were in the same jumble in England even up to the close of the eighteenth century as it is in China to-day. Sir David Barbour states that the English silver currency fell into a very unsatisfactory state owing to the clipping of the coins in the reign of William III and great difficulties were experienced at the time of the re-coinage of the silver money under that king. The clipped money was liable to frequent fluctuations and its value was determined by the amounts available; curiously enough it was current at a price midway between its nominal value and its value as bullion. The guinea was, therefore, in great demand and passed at one time for as much as thirty shillings—it being understood of course that the guinea was coined in gold and its real value was twenty-one shillings and six pence. Lord Liverpool says that "the high rate of the gold coins to which the people then voluntarily submitted (i.e., after the re-coinage) can only be ascribed to the preference which at that time began to be given to the use of gold coins in all payments, at least of considerable amount." There is no doubt, however, that they paid this high price for

* Extract from "The Effects of Great Discoveries of the Precious Metals."

the guinea on account of the interposition of public authority. At first the Government received guineas at 21/6 per piece; later on, however, they reduced it to 21/—which was about its market value as bullion. The guinea, however, was over-valued; and naturally the result was that gold became the chief currency of England and silver was being gradually abandoned. The English people had been accustomed to, and suffering from, an inconvertible and depreciated paper currency, and consequently did not display any repugance to the use of gold.

Change to Gold.

The principal currency of England got on a gold basis, mainly because of the over-valuation of the guinea. Even as late as 1870 gold and silver were maintained at almost the same relative value in the market, and they were both freely usable as legal money at that value in countries which were important by reason of their wealth and production and which used a large quantity of coined money. There was, however, ocasionally a slight premium on one or the other, when in heavy demand.

The reason why silver was dropped altogether was mainly due to tradal development. Up to 1870 all the countries in the world had a silver standard or a bi-metallic standard. Germany was the first country to follow England and at the close of 1871 she took steps toward the establishment of a gold standard and completed arrangements in July 1873. Denmark, Sweden, Norway and, later on, Holland followed in the wake of Germany. France, Belgium, Switzerland and Italy, or what was known as the Latin Union,

suspended the free coinage of silver in 1874. For the first time gold and silver began to be used as standard money in the civilized world without any effective tie between them.

Even at this period there was no standard in the same sense as there is to-day. If anything, the currencies of the world were modelled on the bi-metallic principle. There was a striving, especially on the part of Great Britain, to bring in a single standard, and that in gold. With a view to bring about such a change successfully Great Britain proposed in 1867—even before she adopted the gold standard herself—that France should co-operate with her to mint a coin that would be legal tender in both countries; also that France should give up the bi-metallic, and adopt the single gold, standard. Throughout the world it was felt that something should be done, as silver was depreciating and it was impossible to maintain gold and silver at a fixed ratio as heretofore. By about 1876 all the world's standard of value had changed, Asiatic countries alone remaining still wedded to the silver standard. At a later stage I will point out the reason which helped towards the speedy transformation of the standard of value in Europe.

From 1871 to 1876 the gold price of silver and the Indian Exchange on London fell steadily and largely. In March 1876 a Select Committee of the House of Commons was appointed to consider and "report upon the causes of the depreciation of the price of silver, and the effects of such depreciation upon the exchange between India and England." It is noteworthy that people had already begun to think in gold when they spoke about the depreciation of the price of silver, suggesting of course that, while gold was

unchanged, silver changed in value. While gold was the common denominator in Europe, in India and the Eastern countries silver held that position; and in 1876 the problem of the increase in the price of gold was discussed in India, instead of the decrease in the price of silver. The Committee which was presided over by Lord Goschen (then Mr. Goschen) must certainly have been aware of this when it made the following suggestion:

"Your committee on this point would simply remark that, if effect should be given to the policy of substituting gold for silver wherever it is possible, and giving gold for the sake of its advantages in international commerce the preference even among populations where habits and customs are in favour of silver, and thus displacing silver from the position (which it has always occupied) of doing the work of the currency over at least as large an area as gold, no possible limits could possibly be assigned to the further fall of its value which would inevitably take place: But your Committee are bound to refrain from giving any opinion on the expediency of such a policy, or the necessity for its adoption."

There was complete unanimity in the opinion that the change was in silver only, and it was also believed that the change in the relative value of gold and silver was due to increased production of, and reduced demand, for silver. At the same time the position was not so obscure, as may be seen from the following excerpt of the "Economist" of September 21, 1876:

"The cardinal present novelty is that silver and gold, in relation to one another, are simply commodities. Until now they have not been so. A very great part of the

world adhered to the bi-metallic system which made both gold and silver legal tender and which established a fixed relation between them. In consequence, whenever the value of the two metals altered, these countries acted as equalizing machines. They took the metal which fell; they sold the metal which rose, and thus the relative value of the two was kept at its old point. There is no great country now really acting on this system. The Latin Union, it is true, adhered to the name, but they have abandoned the thing. As they do not allow silver to be coined except in limited quantities, they have no longer an equalizing action; they no longer receive the depreciated, or part with the appreciated metal, and, therefore, the two metals now exchange for one another just as commodities. The gold price of silver is now—like the gold price of tin—left practically for the first time without regulation and free from the manipulation of Governments."

Prices and Gold.

During this period there was a large and general fall in the gold price of commodities accompanied by great economic depression. Sir Robert Giffen (then Mr. Giffen) stated in January, 1879 that the fall in gold prices was largely due to the greatly increased demand for gold in recent years and to the actual insufficiency of the current supply of gold for the current demand of the gold-using countries. Other authorities attributed the fall to increased and cheaper production, to the opening of new countries to trade, to the increased facility for transport and the reduction of rates, as well as to increased industrial competition which tended to reduce

profits. As is generally the case, the truth lay midway, as was seen in subsequent years.

The position, however, was getting serious and there was a long and continued depreciation in the countries adopting the gold standard. In 1885 a Royal Commission was appointed in England to enquire into the extent, nature and probable causes of the depression prevailing in the various branches of trade and industry. While making recommendations, the Commission made the following statement:—

"We expressed in our third report the opinion that this fall in prices, so far as it has been caused by an appreciation of the standard of value, was a matter deserving of the most serious independent inquiry; and we do not, therefore, think it necessary to investigate at length the causes which have brought it about. But we desire to give it a leading place in the enumeration of the influences which have tended to produce the present depression."

This recommendation, of course, led in the following year to the appointment of a Royal Commission "to inquire into the recent changes in the relative values of the precious metals, shown by the decrease in the gold price of silver." For all practical purposes this Commission was really one appointed to investigate the merits or otherwise of bi-metallism. The majority of the commission, seven out of twelve members, was really of opinion that appreciation of gold meant only an increase in the price of gold, due to causes primarily affecting this precious metal. "There cannot be any question," said the majority, "that the gold price of many, and probably most, commodities have fallen during the last fifteen years. In relation

to these commodities it may, no doubt, be said that gold has appreciated. That is another mode of expressing that their price is lower. It may, however, also without inaccuracy be said that in relation to gold these commodities have depreciated. Which is the more accurate expression in any case will depend upon whether the altered relation of the commodity to gold has arisen from some change which has affected gold, such as diminished supply, or some increase of demand owing to its use for purposes for which it was not formerly employed, or whether this alteration is connected with a change affecting the commodity, such as an increased supply or diminished demand. It may, however, have arisen partly from one or partly from the other, so that the true explanation of the fall in prices may be that there has been both appreciation of gold and depreciation of commodities. It is only in so far as the fall in prices is due to circumstances affecting the standard of value that it comes within the scope of our inquiry. A fall in the price of commodities which results from an increase in their supply or a diminution in the cost of their production or transit does not appear to us to be of itself an evil; and, if it were so, it is one foreign to the subject which is referred to us for consideration and report."

The majority summarised their conclusions as follows:

"We think that the fall in the price of commodities may be, in part, due to an appreciation of gold, but to what extent that has affected prices we think it impossible to determine with any approach to accuracy. We think, too, that the fall in the gold price of silver has had a tendency operating in

the same direction upon prices, but whether this has been effective to any, and if so to what, extent we think equally incapable of determination. We believe the fall to be mainly due, at all events, to circumstances independent of changes in the production of, and demand for, the precious metals, or the altered relation of silver to gold. As regards the fall in the gold price of silver we think that although it may be due in part to the appreciation of gold, it is mainly due to the depreciation of silver."

It is admitted that between 1873 and 1886 gold prices fell largely and that a considerable change was effected in the purchasing power of gold. The causes that led to the change may be briefly summed up as follows: (1) Reduction in the cost of production of certain commodities; this reduction caused all these commodities to fall and produced a change in relative prices, but would have had no effect on the general price level if the quantities produced had not been increased. (2) There was also a great reduction in the cost of transportation. This would also have had no effect on the general price level unless it led to an increase in the quantities of commodities produced, or to an increase in the number of exchanges. (3) The reduced cost of production and the reduction of cost of transport did in fact cause changes in the relative advantages of different countries in the international trade of the world, which had the effect of altering the internal scale of prices and wages in the countries affected. (4) There was an increase in the quantities of the commodities produced and an increase in the number of exchanges, both causes tending to bring about a fall in the general price level. (5) There were additional demands for gold due

to the substitution of gold for the silver standard in certain countries. (6) There were additional demands for gold due to changes from inconvertible paper to a metallic gold standard. (7) There were special demands for gold due to the great development of the United States of America. This cause is to some extent identical with that stated in (3). (8) There was some reduction in the yearly production of gold.

The majority of the Commission rejected any idea of returning to the old bi-metallic arrangements. They favoured the creation of a more extended demand for silver and recommended the removal of the duty on silver plate and the use of small notes based on silver. Negotiations with other nations with a view to increasing the use of silver were also recommended. In any case conditions in England were not imperious enough to necessitate a change in the standard; hence gold remained the standard of value.

The fundamental defect of Commissions and others that have spoken or written about gold or silver was that, while they considered silver was depreciating in value, gold was always looked upon as having an unchangeable value.

Why Gold Became the Standard.

The causes that contributed to the enthronement of gold were many. Especially in the latter half of the nineteenth century, the application of science to modern industries was being perfected. The introduction of machinery into almost every department in trade, the advent of steam vessels and the large increase in shipping, besides the extended use of the power plant for manufactures,

made it imperative for each nation to extend its commerce as far as possible. England led the way in this as in many other things; especially about the sixties of the last century England occupied a position almost unique in the history of the world. She was the only country in Europe not involved in any serious struggle and able to carry on the peaceful occupations. She was the only country in the world which had over-seas possessions of any magnitude, where she could sell her manufactures. In Europe itself, Russia, in spite of its vastness, did not count as an industrial power. The once powerful kingdom of Poland was already destroyed. Modern Germany, and modern Italy were still in the course of formation and the internecine strifes were sufficient to keep the public away from peaceful industrial development. The kingdom of Austria was powerful; but it had its Hungarian and Slav troubles, besides conflicts with both Prussia and Sardinia. The Pope was a further contributing factor to the disturbance of peace, not only in Italy but also in Germany, France and Austria. France had gone through numerous revolutions and she had still not recovered from the effect of the previous strifes, when the advent of Napoleon III put an end to all hopes of peaceful and industrial progress. Spain was troubled over its succession; the North countries, especially the Scandinavian states, and Turkey were never factors of any note, so far as industrial progress was concerned. It is not necessary to make even the slightest reference to any other country in the world except the United States of America, which was then only consolidating; but even there the slave trouble and the rupture between the North and South put back the clock of progress. Is it any wonder then that England,

from her isolated point of vantage as an island, was able to forge ahead of all other nations in shipping, industries and manufactures? The nation found greater profits in manufactures and hence was giving up agriculture and other occupations that were the chief means of livelihood in other countries, even in Europe. The whole world was being flooded with English goods at a cost at which it would be simply impossible for the importing countries to produce the same stuff. Of course, later on, the European countries and America learned the use of machinery from England and began to compete with her; but for the moment she was supreme. Even as late as 1880, Germany and the United States, which, during recent years, have held almost a complete supremacy in applied science, were indebted to British engineers for the construction of their railways and water-works; their factories were managed by Englishmen, and the latter organized the whole of their industrial life.

The advance in manufactures had only one meaning; that is, that the conversion of the raw materials into the desired fabrics was attended with large profits. In other words, the balance in favour of Great Britain became every year larger and larger. And at that time the situation was unique in that the great majority of the profit was obtained outside of the country. The profits of the British manufacturers came out of the pockets of people in other parts of the world. It is not generally understood that in those times the principal means of obtaining the surplus from other nations was by taking in precious metals, like gold and silver. Special emphasis should be laid on the surplus, because I want it to be clearly understood that the manufacturers that sent out their cargoes, took in the first

place every produce that was available in the shape of cargo, which was needed or which could be marketed in Great Britain. There is a vast difference between the situation to-day and that of, say, the sixties of the last century. England invests large sums of money to-day; foreign relations and adjustments permit of the safe investment of the surplus wealth of the nationals of one country in another. England receives large sums in the shape of freights from foreign countries, as her shipping is practically as much as that of the rest of the world put together. In those days England was the only country having a big over-seas trade; and hence she alone needed ocean carriers. Trade conditions were not quite on all fours with those of to-day. When England traded with China she had to bring actual specie if she wanted to buy tea for a higher value than that of the wool brought by a certain steamer; similarly if the Chinese wanted to buy more goods from England than the tea and silk which they sold they had to pay also in specie. Being mainly a manufacturing country and having the enterprise to venture out to different parts of the world, the result in the case of England was that the situation was always in favour of fresh and fresh importations of the precious metals into England.

In those times silver was the standard of every country in the world although, however, gold and silver circulated on the basis of their intrinsic value. The principle of token coins was only a latter day invention and was not successful even in England, until late in the eighties. Moreover, the supply of the precious metals was then not abundant. The production of gold and silver in the world was

very nearly of equal value before the seventies. The ratio between the two metals varied according as there was a scarcity of one or the other. The surplus taken to England was in both silver and gold, especially the latter—as people parted with it quicker because it was then solely a commodity. The accumulation of gold in England thus increased year after year, and it so happened that gold was usable to a very large extent for the payment which England had to make for her purchase of cargo. Silver, including new silver coins, was being exported very heavily even in the reign of William III. Thus the large stocks of gold of the country and the comparatively large prosperity of the nation, as a result of industrial advancement, besides, of course, a certain amount of state compulsion, necessitated by large exports of silver coins and silver bullion, led to the adoption of gold as a standard of value. It is needless for me to state that people—even some famous economists of the period — did not take kindly to this change; and thus even as late as the nineties there were potent voices raised in favour of bi-metallism.

Meanwhile the general advance in the trade of the world tended to be all in favour of gold. Every elementary manual of economics would show the advantage of gold as a standard. But what changed the whole venue in favour of gold was the discovery of gold in California and Australia and the general industrial development in Europe. While in the sixteenth century the gold and silver which came from South America were for the most part employed by the Spanish Government for the promotion of a political and military policy in Europe, in about the nineteenth century commercial influences alone determined the

acquisition and distribution of the precious metals. Again while even up to the first half of the nineteenth century the value of silver obtained was nearly as much, if not greater than, that of gold and the relative value between gold and silver was maintained at a high level, in the later periods the position grew to be altogether different. Even the precious metals themselves were not available in very large quantities. Jevons wrote in 1863:

"Thus while industry, trade and prosperity were rapidly advancing in Great Britain, America and most other parts of the world, there was no corresponding advance in the production of the precious metals. Prices, both in gold and silver, continually receded. Now, if, while the introduction of free trade, railways, telegraphs and innumerable other improvements accelerated the extension of trade, no new discoveries of gold and silver had been made, what must have occurred? Prices must have continued in the downward course which they had pursued for thirty or forty years before. But they did not continue in this course—on the contrary they turned upwards in a sudden and decided manner. And this change was simultaneous with the discovery of the new gold fields. Half the Prerogative Instances of Bacon are exemplified in this question, and, if the philosophy of observation and common sense may be applied to statistical matters, we can draw but one conclusion—that prices have risen in consequence of the gold discoveries."

The other countries in Europe followed England, firstly, for the sake of uniformity, secondly, because their principal trade was with her, and, thirdly, because they were anxious to advance in the same lines as

industrial England. In 1871 Germany, which had just come into existence as an Empire, substituted gold for silver as the standard of value, although arrangements were not completed before 1873. Other nations followed the example of Germany for the same or similar reasons, France being the last to give up silver as currency. While owing to this change the special demands for gold came to at least £200,000,000, that is about ten times the then average annual production of gold, the output from the mines was falling off. The result was a marked fall in prices, and low rates of profit, interest and discount prevailed. The whole world was wavering at the time whether to stick to gold or not. The Royal Commission over which the present Lord Courtney of Penwith presided, emphatically stated in 1888 that the fall in prices was "mainly due, at all events, to circumstances, independent of changes in the production of, and demand for, the precious metals." Since that report conditions have changed altogether. While in 1888 the production of gold was £23,000,000, in 1900 it was £51,000,000 and in 1913 £98,000,000. On the other hand, while the production of silver was valued at £21,000,000 in 1878 it was only £18,000,000 in 1888, £27,000,000 in 1900 and £24,000,000 in 1913.

In order to facilitate a proper understanding of my point I have to make brief reference to the fluctuation in the value of silver. In 1833 the average was 59-3/16d.; from that date up to 1850 the value was fluctuating between 59-3/16d. and 60-3/8d. In 1851 the value improved to 61d. and from that date up to 1872 the range of fluctuation was within the narrow limits of 60-5/16d. and 62-1/16d.—the latter value being that of

1859 and the highest known in the history of silver. The price of silver began to fall from 1870, the average for that year being 60-9/16d.; since that date, with slight variations, the fall has been continuing until in 1914 the value came down to 22⅛d. Now, it should be remembered that 1870 was the crucial year in the history of the precious metals, for in that year England decided to have a gold standard; and since then the more the number of countries following the English procedure the less became the price of silver. Let us begin from 1872 and just mark the progress of the decline and fall of the value of this metal. Between 1872 and 1875, so a Select Committee of the House of Commons states, the total production together with export was £74,700,000. Out of this total India took £9,100,000, France £33,500,000, Russia £4,000,000, Spain and Portugal £4,000,000, England £5,000,000, United States £7,600,000, Japan and China £7,500,000 and other portions of Asia £3,000,000. The reason why over 55 per cent. of the total supply during the four years was taken by countries that had decided upon a gold standard was because they had not finished the arrangements for the adoption of gold as their standard. There was at the same time an appreciation in the value of gold; and the exports of silver to the East also increased as a matter of fact from 1872 to 1877 as silver was being taken by the East more heavily than during the period between 1859 and 1871.

Other considerations also came into play. Although during this period, even as far late as 1888, the production of gold was decreasing, the cost of production of commodities was also decreasing on account of a fuller

application of science to manufacture in gold standard countries; further, in these countries, plans for economizing the use of gold were being successfully adopted owing to the extension of banking; the reduction of transport charges and the large increase in the quantity of commodities manufactured naturally kept prices at a low level. On the other hand, the silver-using countries were not in such an enviable position; they had no manufactures and they had to depend upon the countries with gold standards for transport. After 1888 silver production was increasing. The Royal Commission, therefore, erred both with regard to the appreciation of gold and the depreciation of silver. The fact that the prices were at a low level in gold was due to economic causes; and the fall in the price of silver was mainly due to the gold countries trying to get as much out of the silver countries as possible.

In any case, the majority of the Royal Commissioners recommended that there should be no change in the gold standard of England —this recommendation being based upon the assumption that gold never altered in value, while silver and other prices moved up and down owing to economic causes. Nevertheless silver was in use as money in the principal countries—besides, of course, Asiatic countries. The countries making large use of silver were France and the United States. In the United States an Act providing for the more extended use of silver was passed in February 1878, under which the Government was purchasing $2,000,000 worth of silver every month. In 1890 again the United States Congress passed an Act authorizing the purchase of 4,500,000 oz. of silver every month to be put into circulation at the ratio of 16/1 as compared

with gold; and on January 1, 1894 the amount thus put into circulation in the form of silver certificates and treasury notes amounted to $461,627,165. But all this had not much effect in the maintenance of the value of silver; while in 1872 silver was worth 60-5/16d. an ounce in 1878 the value was 52-9/16d., in 1890 47-11/16d. and in 1894 28-15/16d.

This situation is easily explained. Although the Asiatic countries altogether favoured silver and some European countries as well as the United States were making an extended use of silver, there is little doubt that its dethronement from its high pedestal as the standard of value has had a great effect in the reduction of its value. Further, the large purchases by the United States, as also the large exports to the East, were quite ineffective in view of the great increase, which was taking place at the same time, in the production of that metal. While in 1869 the approximate production of silver was 43,000,000 oz., in 1871 it was 63,000,000 oz., in 1881 79,000,000 oz., in 1888 108,000,000 oz., in 1899 153,000,000 oz., in 1903 165,000,000 oz., and in 1913 225,000,000 oz. The value continued to fall and the United States found that the coinage of silver, if continued, would, before long, destroy the gold standard; as up to 1895 they had been exporting gold for large amounts, they were ultimately forced to stop buying any further silver. The conditions were such that even England and Germany were seriously considering the restoration of the old system under which gold and silver were in joint use as the money of the world. At this juncture the rather unexpectedly large increase in the production of gold put an end to all further speculation in the matter; from £40,000,000

in 1895 the output of gold jumped to £47,000,000 in 1897, £57,000,000 in 1898, £61,000,000 in 1899, and since then, with slight variations, the output has been increasing.

The Standard for India.

The situation in the Western world had been settled satisfactorily to the advocates of the gold standard. But the position in India and the East was becoming rather serious. The Indian exchange was becoming a serious factor in determining the money condition of the world. Even previous to 1890 the Indian exchange was falling and in India the rupee or the silver coin was not a token, but, as in China to-day, the standard of weight and value. The position became so serious that international trade and administration were being seriously hampered by the situation brought about by the adoption of the gold standard in the Western countries. The closing of the Indian mints to free coinage of silver was proposed in 1891 and the following remarks of Sir David Barbour, the then Financial Secretary, in the course of presenting the Budget of 1891-92, showed the position of the Government in a clear light:

"The recent action of the United States has, no doubt, to some extent, raised the price of silver and caused a rise in the rate of exchange, but what India requires is not a high rate of exchange rather than a low rate, but some system in which fluctuations in exchange should be neither great nor frequent, and shall oscillate round a fixed point. In this respect we have so far lost rather than gained.

"It is held by some that a low rate of exchange, or at any rate a falling rate,

stimulates exports from India, and is beneficial to the country, and, for proof of the correctness of their opinion, they point to the course of trade as it ebbs and flows daily before our eyes. With all deference to my friends who hold this opinion, I believe that it is one of the greatest delusions that ever gained possession of the human mind. Trade between different countries is essentially a barter of goods for goods, and its extent and nature are determined, in the long run, not by the standard of value in use in either country but by the comparative production of commodities in these countries. The truth is that the apparent stimulus to, or apparent check on, exports which accompanies a fall, or a rise, in exchange is followed in each case by a reaction of precisely equivalent magnitude, or is itself the reaction which naturally follows a previous check or stimulus. It will probably be a surprise to most persons to learn that the total fluctuations downwards of exchange since 1873 very slightly exceed the total fluctuations upwards, the difference being, I believe, not more than 3 per cent. While repudiating the theory that trade between England and India is benefited by the absence of a common monetary standard, I do not deny that there is such a thing as a good standard of value and a bad standard of value, or hold that the question as to what is the best standard is of no practical importance. What I contend for is that the theory of a beneficial stimulus to trade owing to the fluctuations in exchange between countries having different standards of value is an untenable and mischievous delusion. A sudden rise in exchange such as we had this year will unquestionably check business for a time and cause a depression of longer

or shorter duration. But trade must adjust itself in time to the new scale of prices and will then proceed as before. The existence of the Indian tea gardens depends not on the relative value of gold and silver, but on the fact that the people of England want tea and are willing to give iron, coal or piece goods in exchange for it. An alteration in the relative value of gold and silver neither weakens their desire for tea nor reduces the amount of goods which they are willing to give in exchange for it, and cannot, therefore, in the long run, either stimulate or check the production of that article in India.

"The task which the United States has undertaken, of raising the price by purchasing yearly a fixed, though large, quantity of that metal, is one which, if undertaken by any other nation would, I feel convinced, result in disaster; but so great is the wealth of that country, and so rapid its growth, that it would not be safe to say that its efforts must fail. We cannot blame the United States for adopting the course which seems best for its own interests, but I venture to think it would have been better to have at once adopted the unlimited coinage of silver.

"If the United States should adopt free coinage of silver, it is possible that in time the other nations of the American Continent would follow its example, but, whether they did so or not, I should expect that the adoption of free coinage by the United States would lead to a much greater stability in the relative value of gold and silver than we have experienced in recent years, though I am unable to say what the relative value of the two metals might prove to be under such a system. In that case it would probably be best for India to maintain the free coinage

of silver for an indefinite period in the hope that a final solution would be obtained.

"On the other hand, if the United States should abandon its attempts to maintain silver as the monetary standard, and should put a stop to its purchases of that metal, a position of serious danger would be created for India. So long as any reasonable hope of a satisfactory settlement of the currency question remains, I think it would be unwise for India to adopt a gold standard; but the circumstances would be entirely changed if the United States altogether abandoned silver, and the question whether India should not in that case simultaneously close her mints to silver is one that deserves serious consideration. I have no right to commit the Government of India to any opinion on the subject, but it is my belief that in case of necessity the gold standard could be introduced into this country, and that, if America altogether abandons silver, it would probably be best that India should change her standard of value. The risks would be considerable and the sacrifices heavy, but almost anything would be better than to accept violent and continual fluctuations in exchange as our inevitable lot for all time, with the prospect of a fall in the value of silver of quite indefinite amount. I mention the matter, not because there is any intention of taking steps in this direction at the present time, but because it is right that the Government of India and the Indian public should clearly understand what they may have to face in the future, and that they should make up their minds as to the course that is to be followed under certain conditions. If the United States abandons silver as a monetary standard, the disease will have run too far to be stayed by mere palliatives

and the patient may any day be called upon to choose between a difficult operation or a lifelong disease. If such a change is ever made it will be found easiest and safest to adopt a gold standard at or about the exchange of the day rather than to attempt to establish the higher rate. The great mass of the currency in ordinary use in India would continue to be silver as at present.

"The question of the future of silver possesses not merely a speculative, but an eminently practical interest in India. I have long held the opinion that, however distasteful to the majority of men the currency question may be, and however unwilling we may be to undertake reforms which affect the standard of value, the perpetually recurring evils flowing from a difference of monetary standard between India and the other countries with which her financial and commercial transactions are so important, cannot and should not be endured for ever, and that sooner or later a final solution of the problem must be found; and I am unable to discover any permanent remedy for the evils which, day by day, and year by year, press themselves upon our attention in India, except either the general adoption of the system of double legal tender or the extension of the single gold standard."

Even before the position became acute, when the Indian exchange and the gold price of silver commenced to fall, the closing of the Indian mints to silver and the establishment of a gold standard for India were advocated by more than one person, especially by Mr. A. M. Lindsay. His first proposals were made in 1876 and 1878; his scheme, which was in fact a gold standard without a gold currency, seemed to the

Government officials and the leading financers in London an utter impossibility.

Before proceeding with the details of currency reform in India, an understanding of which is absolutely essential to the success of scheme for China, I should give a brief statement of the situation in that country and the result arising out of the changes that took place in other parts of the world. By the coinage act of 1870 the Government of India was bound to issue rupees, weight for weight, in exchange for silver bullion. There was also enforced a notification of the Governor-General in Council, dating from 1868, according to which the Government received sovereigns as the equivalent of ten rupees and four annas; this notification of course superseded the previous one of 1864 which fixed the exchange of the sovereign at ten rupees. This notification had long been inoperative, as the sovereign was then worth much more than ten rupees and four annas.

The fall in the gold price of silver was naturally accompanied by a fall in the gold prices of commodities, and depression of trade was the result. The gold standard countries were accommodating themselves to new conditions arising, by the reduction of the cost of transport, and the lowering of the actual cost of production. When it was found that it was impossible to bring silver back to its old value, India suffered greatly from the increase in the purchasing power of gold, or because of the larger number of rupees it took to buy the same quality and quantity of material. India was under the tutelage of Great Britain; railways and irrigation works in that country were chiefly constructed with English capital. Of course, the question of exports of raw materials, besides the hoarded wealth of the

country in silver, were against any proposals tending to raise the gold value of the rupee. It is beyond my province to go into a detailed discussion of these subjects. The Government was embarrassed at the time as, with a falling exchange, they had to pay a larger number of rupees to meet the sums due on home charges. After all said and done, the British manufacturers' interests were paramount from their point of view. They decided that the situation cannot and should not continue.

In 1893 four possible bases of currency seemed to hold the field; (1) The debased and depreciating currency usually of paper, which, of course, was never intended to be adopted; (2) silver, which they were avowedly upsetting; (3) bi-metallism, which they attempted, and had failed, to obtain by negotiation with Governments of other countries; (4) gold, which to them seemed the only possible currency for adoption.

Gold Exchange Standard Adopted.

The Government of India, as Sir David Barbour already stated, were not quite sure of their ground and were certainly unwilling to take the decisive step toward the adoption of gold. In October 1892, they proposed that the Indian mints should be closed to unlimited coinage of silver and that further steps should not be taken until the effect of closing the mints had been ascertained. If such closing did not prove sufficient to establish the desired rate of exchange, steps should be taken to reduce the amount of the rupee currency. As this procedure was taken with a view to the future adoption of the gold standard, it was tacitly agreed that the ratio between silver and

gold should be based on the average price of silver during a short period before the mints were closed. In order to prevent any sudden and injurious rise in exchange the Government proposed to legislate to make the English sovereign legal tender to an unlimited extent at a rate not exceeding one shilling an six pence for the rupee. Except the recommendation of the closing of the mints, all the rest were only suggestions to follow that proposal later. The Secretary of State for India referred the proposals to what is now known as the Herschell Committee. This committee, of which Lord Herschell was the chairman, submitted a report on May 31, 1893, the principal recommendation being:

"While conscious of the gravity of the suggestions we cannot in view of the serious evils with which the Government of India may at any time be confronted if matters are left as they are, advise your Lordship to overrule the proposals for the closing of the mints and the adoption of a gold standard, which that Government with their responsibility and deep interest in the success of the measure suggested, have submitted to you. But we consider that the following modifications of these proposals are advisable. The closing of the mints against the free coinage of silver should be accompanied by an announcement that, though closed to the public, they will be used by the Government for the coinage of rupees in exchange for gold at a ratio to be then fixed, say one shilling and four pence per rupee; and that at the Government treasuries gold will be received in satisfaction of the public dues at the same ratio."

Following upon this recommendation the Government passed an act closing the mints to the coinage of silver on private account;

and the rate at which rupees or notes were to be supplied in exchange for the tender of gold was a shilling and four pence per rupee. Contrary to expectations the rupee did not rise to one shilling and four pence and the average up to 1895 was one shilling and 2.546 pence per rupee.

One of the principal checks, which Indian economists did not attach sufficient importance to, was the repeal of the Sherman Act by the United States in November 1893, which let loose an enormous flood of silver up till then purchased by the United States Government, and nullified the results of the action of the Indian Government. There was an Australian banking crisis, also in 1893, besides a widespread depression in trade. It was found that at all costs the further entry of silver into India should be stopped for a time at least and in 1894 the Government imposed duty of 5 per cent. on all silver entering India. Further, famine, plague and a succession of budget deficits increased the difficulties. In 1896 another important event in the history of silver was the defeat of the silver party at the presidential election in the United States. Even at the close of 1897 the position was that the rupee exchange still stood at one shilling and 2.450 pence. The Government of India, therefore, proposed that money should be borrowed to form a gold reserve and that, if found necessary, special steps should be taken to reduce the surplus currency by calling in and melting down silver rupees. Extensive coinage of silver was being made in Russia, and Japan received a large indemnity for China and with the help of it adopted a gold standard.

All these factors, more especially the drawings of the Secretary of State in the

shape of silver rupees, helped to bring the exchange up to one shilling and four pence. The proposals of the Government of India were referred to the Fowler Committee which recommended in 1899 that the permanent rate of exchange should be fixed at one shilling and four pence for the rupee and that gold should be made legal tender. The Committee also recommended that the profit from the coinage of rupees at the rate of fifteen rupees to one sovereign should be used to form a gold fund to secure the convertibility of the rupees into sovereigns at the same rate, and that the Indian mints should be opened for the coinage of gold.

This recommendation has been the crux of all future reforms in currency in India. I will now briefly detail the successive steps taken by the Indian Government to secure the desired result. In 1899 an Act was passed declaring the British sovereign and half sovereign legal tender to any amount at the rate of one shilling and four pence per rupee. From 1899 to 1903 negotiations were carried on for the coinage of sovereigns in India, until the proposal was dropped indefinitely on February 6, 1903; the proposal, however, was again made in 1912 and discussed by the Chamberlain Commission on Indian Finance and Currency in 1913. In 1900 a gold standard reserve was instituted out of the profits of coinage. The progress even at this stage was not unattended with difficulties. The arrangement was based on the assumption that when gold was received by the Government in exchange for rupees, it should, if not taken out by the public, be held as a portion of the paper currency reserve; these rupees were to be given from that reserve when gold was tendered, thus saving the cost to the

Government of either holding gold which the public would not receive or of shipping it to England. But the anomaly of the situation was that so much gold was tendered that the stock of rupees actually ran short and the Government had to coin rupees at high pressure. To obviate such an unfortunate position in the future the Government decided to hold in the form of silver rupees £4,000,000 of the profit on the issue of silver rupees in exchange for gold, as a special reserve to meet sudden silver demands. Thus in 1900 the gold reserve became the gold standard reserve fund.

But gold did not circulate freely in India and could only be made useful in London; therefore, it was decided to receive gold, in London, from time to time, as well as in India and pay for it by drafts on the Indian Treasury. Arrangements were also made to hold a portion of the Indian paper currency reserve in London; and in case of need the Secretary of State for India could draw upon the reserves in London, an equivalent amount in rupees being simultaneously transferred to the paper currency reserve in India. Thus in 1904 the Secretary of State notified his willingness to sell council bills on India at 1s. 4⅛d. to a rupee without limit. In 1905 an Act was passed authorising the establishment of the currency chest of "ear-marked" gold at the Bank of England as part of the currency reserve against notes, and the investment of a stated part of currency reserve in sterling securities. In 1906 the notification which had directed the issue of rupees against the tender of gold (as distinguished from British gold coin), was withdrawn.

The years 1906 and 1907 were critical years in the history of Indian currency.

Even in 1905 the tender of gold became so great that the Government had to make continued purchases for coinage. In 1906 the Mexican mints were closed to the free coinage of silver. In 1907 the fall in Indian exports, which was more or less a direct consequence of the bolstering up of the rupee, became very serious. There was a financial crisis in the United States and a great demand for gold for that country. Exchange fell to 1/3-11/16d. All the gold in the gold standard reserve was exhausted and the Government sold bills at 1/3-29/32d., withdrawing the par amount of the bills from circulation and placing the rupees in the Indian portion of the gold standard reserve. The currency was reduced by 120,000,000 rupees; and thus the rupee branch of the gold standard reserve had to be instituted.

The constant drain of gold became so great that in January 1909 the total amounted to 17,750,000 sterling, the balance remaining to the gold standard reserve being about 9,000,000 sterling. There was, of course, an accumulation of silver rupees in the reserve which, however, was of little use to support the gold standard. A better method was adopted later and the Secretary of State began to meet his requirements by withdrawing gold from the paper currency reserve or from the gold standard reserve, instead of by drawing bills on the Government of India for the amount required. The reduction on the amount of bills drawn was equivalent to an increase of an equal amount in the exports from India; and, as the Government of India simultaneously withdrew rupees and placed them in the Indian paper currency reserve or in the Indian portion of the gold standard reserve, there was a corresponding contraction

of the currency with the usual effect on prices. Such a procedure had precisely the same effect on the exchange as would have resulted if the Indian currency had been composed of gold and a portion of that was exported from India to England with the following proviso: When the Secretary of State sold gold securities to acquire the means of meeting his ordinary liabilities, he added no gold to the available supply in London; also the total amount of the gold standard reserve was only the profit on the issue of a certain quantity of rupees. And further, if gold coins to the face value of the same amount of rupees were circulated in India, a greater amount would have been available for reducing the exchange by being exported and made available in London as an addition to the gold supply.

Indian Currency Reform not Planned.

So far as the reform of Indian currency was concerned no deliberate plan was followed and the changes that have taken place or even the fact that the gold exchange standard was allowed to develop was due mainly to force of circumstances. Prior to the introduction of the gold exchange standard, the finances of the Government of India were not very satisfactory; but since 1898 up to 1912 there was a net surplus of £29,433,000 in fourteen years. A great deal of this budget prosperity was certainly due to the fact that the inflation of the value of the rupee reduced the home charges; this contention is borne out by the fact that, when exchange fell in 1908/9 the Government had a deficit of £3,737,000, instead of a surplus. But what really helped the position was a sudden inflation of exports. Even as

late as 1895 the balance of trade in India continued to be unfavourable to her; but the great expansion of trade and the entry of the Continental markets for buying raw produce led to a large excess of exports of merchandise over imports. This was specially noteworthy after 1908/9 when the excess increased from £16,221,000 to £55,782,000 in 1911/12. Thus, it happened that, even allowing for home charges, India had a fairly large amount of her credit which was paid to her mostly in gold. For instance while in 1897/8 she received £732,000 oz. of gold, in 1909/10 3,505,000 oz. were imported and in 1911/12 6,244,000 oz. besides the total of 600,000 oz. produced yearly in India. The prosperity of the exporters also helped to introduce the gold coin, especially the sovereign, in the Punjaub, from which most of the wheat produced in India was exported. The Government was also able to maintain a gold standard reserve to the value of £42,045,000 at the close of the financial year 1911/12 without imposing any cost on the revenue of India. Of this huge total the total actual profit in coinage was £22,000,250. Circumstances, therefore, conspired to bring about a fixity of the arrangement, even although there has been considerable borrowing in London in order to help the standard; but the tendency has been towards a reduction in, and not an increase of, borrowings in London.

Since 1906 the flow of gold into India has been over £80,000,000; and latterly, especially in 1911/12, India took more than 25 per cent. of the world's output. There has therefore been an outcry against the drain of gold into India. The speculations in connexion with that subject are beyond my province; but before the war in Europe

started, the position in India was such that with a large excess exports over imports and a heavy flow of gold into the country, the time was ripe to complete arrangements to establish a gold standard in that country.

Other Countries Follow India.

Since the Indian system has been perfected it has been widely imitated both in Asia and elsewhere. In 1903 the United States introduced a system, which is practically a replica of the Indian system, into the Philippines. Mexico and Panama have followed a similar system. The Colonial Office have introduced it in the Straits Settlements and are completing arrangements to introduce it in the West African colonies. Japan, of course, as also Siam latterly, have had a similar system until they finally changed to the gold standard. A similar system has existed in Java for some years.

In practically all the countries mentioned above, the procedure followed was about the same; although in countries like Siam, Japan or India there was no chaos in the internal currency, the main difficulty was the adjustment of local conditions to international trade, which was, of course, the primary function of currency. In countries like Java and China, reform includes the co-ordination of local internal currency. Dr. Vissering, therefore, to a certain extent, rightly considered Java as eminently parallel to China. For the progress of currency reform in Java my readers may with advantage turn to Dr. Vissering's work. I will give a brief summary of the changes in Netherlands India where the situation before 1845 was not unlike the present state of affairs in China:

Reform in Dutch East Indies.

"First period: Before 1845; Great confusion in the currency, chiefly owing to a very serious redundancy of copper coins. In conformity with Gresham's law all the silver had disappeared. The copper currency was debased. Trade was much hampered. Second period: 1845 to 1854 or 1859. The Government lends vigorous assistance by the issue of silver certificates; withdrawal of the copper surplus from circulation. Unmixed application of the gold exchange system (then silver exchange system). Adoption of the pure silver standard by act of May 1, 1854. Large imports of silver standard coins and withdrawal of silver certificates. Third period: 1854 to 1877. Pure application of the silver standard system, with silver as the standard of value. Exclusive circulation of silver standard coins, and consquently no further reason for the application of an exchange system. Fourth period: 1877 until recent years. The gold ten-guilder piece is introduced as gold standard coin by act of March 28, 1877. The silver standard coin is reduced to the rank of token coin, though remaining legal tender. Owing to a continuous depreciation of silver the necessity for a gold exchange system as regards these silver coins is revived, inasmuch as gold is neither found in circulation nor otherwise present in the country to any important extent."

Conclusion.

The four countries that have the gold exchange standard, i.e., India, Java, Straits Settlements and Philippines, have the following in common: first, under present conditions

they maintain the value of the silver token coins by drawing more or less on gold reserves abroad; second, the gold reserves again are the bulwark of the currency or bank-notes; third, they settle their balances, and maintain the artificial par of exchange by making remittances in bullion which consists of gold for India, the Straits and the Philippines and gold and silver for Java—because silver is also legal tender in Holland. In Java, or the Netherlands Indies, the Government does not act as a guarantor of the currency by way of Government remittances, as this function is satisfactorily performed by the exchange banks acting in accord with the central bank of issue. In any case, all these countries have arrived at a stage in which gold exchange standard can easily be abolished and the gold standard substituted as soon as legal tender gold coins could be issued in sufficient numbers and could be absorbed by these countries easily.

I have dealt rather extensively with some of the details contained in this chapter, especially with regard to the progress of currency reform in India, in order to facilitate a clearer grasp of the evolution of the standard of value. Various eminent authorities have from time to time proposed either the gold or the gold exchange standard for China, and a work dealing with currency has necessarily to go into the history of the gold standard and the result of the applications of the gold exchange standard to Asiatic countries. Further, those that have suggested various reforms, for some reason or other, have not been as explicit as they could probably be, with regard to progress in other countries. It might be argued by them that the reason for not making extensive references was that conditions were not altogether on all fours. But a student who

wants to learn the effects of the operation of certain laws or of a specific kind of reform must have a correct comprehension of the processes and results in other countries. The test of the usefulness or practicability of a proposal of currency reform for China is the experience of other countries, exactly as the effect of legislation of any kind is always measured by the success or otherwise of a similar measure in another country.

CHAPTER VIII.

THE BASES OF CURRENCY

The exact position of the currency in this country has been treated in detail in the earlier chapters of this book. At present, I purposely refrain from making in detail any remarks on currency in relation to foreign trade, in order not to confuse my readers. No country in the world has had so complicated a problem, as China has with its currency question to-day. In Europe the choice was between gold and silver and there was a certain amount of fixity in the relation between the two metals, with a slight elasticity, of course. Owing to the particular interest of each country to draw as much precious metal to its shores as possible, and also to the fact that the distance between one state and another in Europe was not half as great as that of one province and another in China, the adjustment became easy. Copper or bronze never entered into European currency polity. At least within recent years, there was never any trouble in the internal currency in India, and Japan. The problem was limited in its scope because the purpose of reform in these countries was limited to the adjustment of local currency to international commerce. Even in Java, which Dr. Vissering quotes as the nearest parallel to China, there was little silver to trouble about when the question first came into prominence.

It is not always clearly understood that while the experience gained in other countries should be of benefit to China, local conditions

and the ancient tradition of the country should have a sufficient, if not paramount, influence in the shaping of currency. I have already enunciated that all reform in China, or, for the matter of that in any country, should be in consonance with the conditions prevailing and the accumulated traditions handed down from generations past. In the application of the experience gained in other countries, any proposal for reform should take sufficient account of the difference of conditions prevailing in one country and another.

The Basis of Reform.

It is tacitly agreed by all parties that the currency situation in this country needs a change and an urgent change. For all proposals tending towards a betterment of conditions, the examples are taken from foreign countries. The countries in which, at the moment, the currency is well regulated are either gold or gold exchange standard countries —the gold standard being that of the European countries and the United States as well as Japan and Siam, and the gold exchange standard countries being India, Strait Settlements, Philippines and the Dutch East Indies. Hence there are two classes of reformers, one proposing that the European plan should be instantly followed and the other proposing that the Asiatic plan or the system that prevails in countries like India should be adopted by China. The advocates of both schemes support their proposals with very plausible arguments. Those in favour of the gold standard point to the vast progress made in Europe under such a system; and that, although there might be inevitable difficulties at the outset things would adjust themselves in

due course. Those in favour of the gold exchange standard state that conditions in India or Java approximate more to conditions in China, and that as administrators have proposed and adopted the gold exchange instead of the gold standard in these countries it should also be good for China. It would be sheer waste of space for me to go in detail into the several arguments adduced by the two parties; they take too little stock of the conditions in China, and the difference between China and the other countries.

Conditions in Europe and China.

The final decision on the standard to be adopted is the fundamental of all reform in currency. Hence it is very necessary to go fully into the points of difference between other countries of the world and China. Let me first point out the difference between Europe and China. In Europe, as I have already mentioned in the previous chapters, it was a choice between gold and silver, without any further encumbrances. The most important point, and one that should not be lost sight of, was that at the time the choice was made there was a great deal of fixity of ratio between the value of the two metals. The two questions that were then being considered were: first, the choice of the metal which would furnish sufficient metallic currency for the purpose of the growing international trade; and, second, the simplification of trade accounts by the adoption of one or other of the metals as the standard of value. Each state in Europe was changing the ratio—within narrow limits—of the values of one or other of the two metals whenever it deemed it necessary; and such a procedure was, of

course, not very conducive to the free flow of international commerce. Opinion was divided between two courses; one was the adoption of gold, and the other, the retention of gold and silver as before, without variability in value. The events that led to the final adoption of gold in England I have already explained; and her example was sooner or later followed in all other countries, where there was a large growth in the industrial and manufacturing activity, leading to an enormous increase in the national wealth, wages and prices; there was also a comparatively increased supply of gold when silver production was decreasing. A country which has a bigger national wealth naturally prefers a unit of greater value than one with a smaller wealth, wages and prices. Thus it is no wonder that England fixed upon gold. There must also be sufficient supply of the coin or metal that forms the medium of exchange; at the time when England was growing richer silver production was decreasing; and it was but natural that England should have taken to gold. A little later, even as late as 1886, when the production of gold was showing no signs of increasing, economists were wavering, especially with regard to their faith in gold. But when once again the production of gold increased by leaps and bounds—and the manufactures and industries of not only England but practically all Europe were increasing, in an even larger ratio—the gold standard became a fixity. During recent years again, there was a slight uneasiness, not because of the paucity of gold production, but because of the enormous growth of credit on a very slender basis of gold. While some years previously there was talk of too much gold, there were complaints in

1912 that the production of gold was insufficient to meet the currency demand of the world. What the future may have in store for us we do not know. The war in Europe is likely to lead to problems which might probably bring down gold from the high pedestal it has been on for over twenty years—as the standard of value, of course.

Contrast the conditions in China with those in Europe. There is no comparison between the national wealth of the two countries. There are no manufactures in this country, and besides the country has been for nearly forty years buying more than it sold, and thus accumulating a large adverse trade balance. The country has no wealth with which to improve its industry and manufactures; and it is a well-known fact that the profits of industries and manufactures are greater than those of agriculture, and that such profits alone have enabled Europe to adopt and maintain a gold standard. Moreover, China has not even the freedom to develop into a manufacturing country which the European countries had the good fortune to have. When the several states in Europe adopted machinery they protected the nascent industries by heavy taxation on all such foreign goods entering the country. Even to-day, practically every country in Europe—except England—the United States, and all the British Colonies have the most voluminous schedule of protective taxation. Foreign goods entering China are taxed merely to furnish revenue to the Government, and not with a view to encourage local industry or with a view to enable her to compete with foreign manufactures. The standard of living, especially in view of the almost entire absence of manufactures and the small national wealth, is extremely low;

and the ratio between the standard in China and English may be roughly put at one to fifty. Therefore, the basis of a unit must naturally be regulated by the considerations which I have mentioned above.

Currency and Money.

The question, what is money, has never been satisfactorily answered. Mr. Mitchell Innes states that there never was until quite modern days any fixed ratio between the monetary unit and any metal; in fact, there never was, until recently, such a thing as a metallic standard of value. For centuries at a time there were no gold or silver coins, but only coins of base metal of various alloys; that changes in the coinage did not affect prices; that coinage never played any considerable part in commerce; that the monetary unit was distinct from the coinage, and that the price of gold and silver fluctuated constantly in terms of that unit; thus it is clear that the precious metals could not have been a standard of value, nor could they have been the medium of exchange. There is not, and there never has been, so far as China is concerned, a law compelling a debtor to pay his debts in gold or silver or in any other commodity. The trade or the cost of living or even the whole economic life of the country is not so much affected by the standard of value known as money, as many people think. As has often been pointed out, trade with any country or trade between different countries is essentially a barter of goods for goods—its extent and nature being determined in the long run not by the standard of value in use in either country, but by the comparative

cost of production of commodities and demand in different places. The adoption of gold or silver as the standard would not adversely or favourably affect the total of the indebtedness of the country and the wealth of China, at one and the same time. If silver were adopted the probability is that the gold loans would show a much higher value, but the national wealth would be, at least on paper, higher than it would be under other circumstances. On the other hand, if gold were adopted then the national wealth would decrease in terms of gold, while the indebtedness would be more favourable to China. Viewed from a broad standpoint, and without reference to the practical applications of the systems, the adoption of gold or silver should make very little difference, as regards even the volume of foreign trade. If gold were the standard the probability would be that the first effect would be towards an increase in the volume of imports and checking the volume of exports; if silver were the standard the first effects would be directly the opposite. But in the end there would always be an adjustment bringing an equilibrium in the state of affairs. For instance, if gold is the standard, and imports go on increasing day after day, there must come a time when the Chinese will have to sell some of their own goods in order to be able to buy more; or, if silver is the standard, and Chinese go on selling as much as possible, there must come a time when the Chinese will have to take foreign goods in settlement of the sums due to them on account of their produce. Fundamentally, and spread over a long stretch of time, the nature of the metallic standard practically makes no difference to the trade of the country, or even to the well-being of the country.

But we are not discussing this point from a philosophic standpoint. Although political economy does look far ahead, especially in Government polity, its main function is to devise means for immediate action. Also, any reform proposal should be such as is productive of as little dislocation as possible. Further, in trade economy or Government policy, the distant future is only of academic value; as an immediate dislocation may bring about such changes as to make all calculations about the distant future absolutely useless.

The Faults of Reform Schemes.

In economics or politics or in any walk of life, the principle that should not be lost sight of is, that reforms should be built on sure foundations as also that they should take proper note of the existing foundations. The essential point, very often forgotten by unpractical enthusiasts, is that reform proposals for China should be in consonance with the national tradition and that they should be such as to coalesce with the existing conditions. It is as easy to change the disposition of a nation as it is easy to change the disposition of a man; and it is simply stating a fact to say that any scheme of reform that does not pay sufficient heed to the national idiosyncracies and long established national usages would never succeed. Currency reform in China is no exception to the rule, and if currency reform is to be carried out in China successfully, the scheme should not run counter to the existing conditions and local traditions. The fault of many proposals, including the latest one of Dr. Vissering's, is the assumption that because the gold or gold exchange standard has been found suitable in

another country they should also serve the purpose for China. The proposers of these reforms have been quick to see all the faults of the Chinese systems without being able to perceive their merits. Few stopped to think that the Chinese systems should have some merits to have existed for centuries or gave a thought to the possibility of adapting the existing system to suit modern conditions. There is no doubt that the old system has broken down completely, in the face of the changes taking place to-day, on account of the expansion of foreign trade and foreign intercourse with this country.

Influence of Metallic Money.

Another shortcoming of practically every scheme that has been proposed in recent times is that little attention has been paid to the regulation of currency, as it affects local exchanges. No doubt foreign trade and foreign intercourse have a deservedly higher importance than local trade; but a little thought ought to show that no proper regulation of currency is possible if sufficient heed is not given to the situation as it affects purely local interests. There is no use having a dollar which is worth two shillings in the ports, if the Newchwang and Chengtu exchanges remain as they are or fluctuate as they do. The fixing of the price of the national dollar in terms of gold, or even the definite fixing of the dollar in terms of small money, would not help the position, as regards local exchanges.

It is a common belief, and one which has a thorough grip of young China and all inexperienced foreigners, that an adequate supply of metal would solve the whole problem of currency reform. The less optimistic people

do not go far as that; they believe, however, that the supply of metallic currency is the fundamental of all reform; and, unfortunately, foreigners who have proposed schemes of reform have been principally guilty of fostering this opinion among the Chinese. It is notorious that ever since Chang Chih-tung established the first mint in Canton in 1890, millions and millions of dollars have been thrown out, of nearly as high a standard as a Mexican dollar—viewed merely from the coinage point of view. These coins were put into circulation in all parts of China from Chihli to Kwangtung. Not one of them really became popular, and one and all of them, including the issues of 1913, are being thrown into the melting pot; ever since the commencement of the European war in 1914 more than $10,000,000 including some small coins—every one of them the product of the provincial mints—have been melted in Shanghai alone, to swell the total of sycee in the banks. It may be averred that these issues were not properly regulated or properly distributed. All the same they would not have been returned to the melting pot, if the metallic standard alone were sufficient to regulate currency.

The progress, even the very existence, of a country depends upon the increase or maintenance of its national wealth; and the value of such wealth is usually measured by the purely quantitative calculus of money. The basic concept of value, cost and utility are made subject to this idea, i.e., that the primary significance is a monetary one. This error, which is quite common among all nations, and in which the study of motive, interests and ideas have no place, has been amplified by Chinese economists and reformers. They proceeded from the purely commonsense point

of view that a simple barter was not possible under changed circumstances, and that metallic money or paper representing money was necessary to complete purchases. Of course, they have had a painful experiences of paper money without reserves of silver or other coins; hence they jumped to the conclusion that good silver and copper coins in sufficient quantities for the use of buyers and sellers were necessary for China. They pushed this theory to its logical conclusion that because money or metallic money was needed for trade, the amount of copper, silver or gold money should be in direct proportion to the total volume of trade. What they actually saw was this: when Chinese sold goods to foreign buyers there was an influx of silver and so the volume of silver in circulation increased; when the foreigners sold their goods to Chinese buyers the silver went back to the foreign banks and the circulation of silver decreased. They had also noticed that with every exchange with sycee, or other recognised mediums of coinage, there was always some discount to be paid by one party or other —a position unheard of in modern European countries, except when international trade settlements have to be made. However much the Shansi and native banks facilitated the conduct of business there was little doubt that want of a reliable medium of exchange did hamper trade—at least contributed to reduce the volume of foreign and local commerce.

The only medium of unvarying value which Chinese have had from time immemorial is the cash; unfortunately it has proved too small for the purposes of foreign trade. To add to the confusion, several foreign dollars had been introduced during the long period of foreign intercourse with China. The situation, especially

during the past thirty years has been as follows: The traders and merchants in the ports, and the foreigners dealing with Chinese, thought in terms of the artificial and the conventional taels of the different localities; the Government and the Provincial officials thought in terms of the Kup'ing taels and several Provincials taels, as distinct from the taels in the ports; the Haikwan was the money of the Customs; the people in the interior, and even in small places very near the ports, thought only in terms of the cash, which has remained supreme, in spite of all changes, and an almost unvarying standard from Tientsin to Canton; in spite of the circulation of the dollar, few except wage earners and small shopkeepers thought in terms of the dollar—except in a few places where convention held to the dollar; the circulation of the piastre in Yunnan or the rupee in some parts of Szechuan has not made people think in term of the rupee or piastre. Without a single exception, efforts of the reformers of currency in China have been towards establishing a standard, independent of all the existing ones. In the earlier Chapters I have given some of the chief proposals made towards reform. All these proposals were based on two underlying principles: the first was that the moment an artificial standard was fixed and a sufficient number of coins issued from the mints the currency problem was solved; and the second that foreign trade or even the actual life of the country depended altogether on a sufficient quantity of metallic money.

Conditions in India, etc.

It needs no special arguments to prove that such proposals were bound to fail. As in

every other country in the world, where currency has been properly regulated—at least as far as present conditions go—the course adopted should be one in consonance with local tradition. In every country in Europe, the standard coin or coins were already in existence and the task that confronted the reformer was only that of regulating the value. In India, for instance, the rupee existed long before the advent of the British, and its subdivisions were also rigidly fixed. Java, the Straits Settlements or even the Philippines are not parallel examples, for the simple reason that these countries are comparatively modern and practically brought into the variest pale of civilization by the Europeans. In these countries, some regulation or other had to be adopted with regard to money, and the plan of the home countries with slight modification to suit local conditions, was easily foisted on them. There was no breaking with local traditions, as there were none to break. In Japan local coinage has been maintained with some changes necessitated by increase of foreign trade, and the yen has always been the money of Japan.

Bi-Metallism.

What are the standards that could possibly be adopted? At this stage it is absolutely useless to think of bi-metallism—although it would suit China extremely well; practically every country that China is trading with has adopted the gold standard or slight modifications of it. And as bi-metallism is only possible through negotiation it is needless to consider it for the present.

Gold Standard.

It is argued that as every country has adopted gold as a standard China should simply do the same. The advantages of the gold standard are stated to be: stability of prices for commodities at home; exchanges with foreign countries would have very little fluctuation; salaries, rents, taxes and such fixed payments would have the same value all the time; business relations with foreign countries and the settlement of debts would not be attended with the present disadvantages of the rise and fall in exchange.

Let us take the first point, with reference to the price of commodities. It has been the mistake of some modern schools of economists, during the past two decades, to consider a standard of value as determining price. Really, the rise and fall of prices are under the operation of economic influences; in other words prices move in such manner as to insure that the exchange of commodities shall be carried on in accordance with the play of economic forces. If instead of gold, silver were used as a standard of value in Europe, prices would bear the same relation to each other as they do to-day, as stated in gold. This theory of stability of prices, because of gold, has been carried to very ridiculous extremes. Up to 1887 when the production of gold was limited, and the demand several times that of production, there were complaints of fall in prices; that is, year after year the same amount of gold was able to purchase a larger quantity of goods. When gold production increased and in about 1908, the production reached unexpected limits, the complaint was that prices were rising year after year, or the

same amount of gold purchased less and less quantities of goods. Later on in 1911/12, when India had begun to absorb a quarter of the gold production of the world there were again complaints of rise in prices and scarcity of gold. The several crises, which came to a head in the present war, have made gold extremely dear, and prices have risen; that is, for the same amount of gold the quantities of goods purchasable are growing less and less. What does this indicate? If gold had brought about fixity in value, as the protagonists of the gold standard have never tired of repeating, why this variation in values? It is, of course, absurd on the face of it, to assert that gold has remained unchanged while commodities have been changing their relations to gold. The fact that gold is the standard of practically every country in the world, does not imply that gold is no longer a commodity like wheat or cotton. Economic forces determine the relation of exchange between any two commodities, and the same forces determine the value of gold in relation to commodities. Thus the correct explanation of the rise and fall in values is that economic forces constantly modify the value of the several commodities including gold. It is beyond the scope of the present volume to go into this question fully. Suffice it to say that the statement that a gold standard brings about stability of prices is untenable.

The second advantage claimed for a gold standard is that salaries, rents, taxes, etc., would have a fixity of value. It is hard to see how this advantage pertains to the gold standard alone. So long as there is a standard of value, whether gold, silver, copper or brass, there would be a fixity of value on such items.

Considered properly this statement has very little significance. What finally determines the value of money is not the number of metallic coins or any other coin of standard money, but what a certain amount would fetch in the market. Judged from that point of view, gold does not give any special advantage over other possible standards.

The third advantage relates to trade relations with, and debts to, foreign countries. It would not be denied that it would simplify matters very much if China, trading almost exclusively with gold standard countries, should adopt gold—from the point of view of accountancy. Here again such proposals do not take proper count of the nature of trade and the benefits or otherwise to China. Adopting a gold standard by any country has been synonymous with depreciation of the intrinsic value of silver. Since the day when Ricardo spoke of gold and silver as the general mediums of circulation, the ratio of gold to silver has dropped from 1 to 15½ to 1 to 41 to-day. At first the relative ratio began to fall on account of the scarcity of gold. Later on, however, by the time that gold was beginning to be produced in abundant quantities, practically all the countries that had adopted the gold standard willingly were great manufacturing and industrial countries. The states near by had to follow the bigger countries, which in their turn found it convenient to force other countries to come into line with them—whether the change was suitable to the countries or not. Although the manufacturing countries which were rich and best suited to have gold as a currency wanted raw produce, their interests were mainly to sell more than they bought. By some means or other,

every progressive country has strained its utmost to be a creditor nation. The present position of trade in China is that China remains a debtor nation and has been growing more and more into debt every year, on account of excess of imports over exports. China has been accustomed to view gold or silver coin as wealth in itself, as was the case in India. The adoption of the gold standard would mean nothing else but the appreciation of gold, which she has not got, and the depreciation of silver, which is the national wealth; which would mean complete ruin of her exports for a considerable time.

It may be argued that the same thing was said about Indian exports when the mints were closed to the free coinage of silver and that such prophecies did not come true. Here again, adventitious circumstances helped to ease the tension. It is well known that the currency policy of India was never carefully thought out; as a matter of fact, it worked itself. Sudden demand for Indian exports and the ability of the farmer to supply them led to a large increase of exports over imports. In spite of the home changes and other heavy burdens, there was a balance payable to India by the countries that took her produce; and this balance has for some years been paid to her in gold.

The position in China is quite different; besides the fact that the unfavourable burden is very heavy, considering the country's resources, China has a heavy burden of foreign debts. The position is that it is all paying out, with nothing except additional debts coming in. It may be argued that the adoption of the gold standard and the rise in exchange would enable China to meet her obligations with less

money. This is tenable if China paid in gold; but she has no gold to pay out with, and what is worse, by the very act of raising the exchange she depreciates the silver which after all constitutes her national wealth. Raising the exchange will make the trade more lop-sided than it is to-day, bringing about, in the natural course of events, a paralysis of commerce.

The fourth advantage of gold is said to be its freedom from fluctuation in its value and the saving of trouble in connection with exchange. Exchange both in international and local commerce is practically a nuisance; and the sooner these wide fluctuations are done away with the better for all concerned. But it is only a question of degree; even between countries that have adopted the gold standard, as England and the United States, or England and France and Germany, the question of exchange still continues to be of paramount importance. The range is very narrow and when the quotation reaches beyond what is known as the specie point, gold is exported from one country to the other. The fact, therefore, remains that the adoption of gold does not do away with exchange fluctuations; it need, however, not be as violent as it is in China. But it can be managed in China by other means than that of the adoption of the gold standard, as I will show later on. A disadvantage which even those who propose a gold standard for China accept is that the gold coin is far too big for ordinary transactions in the interior of China. In gold standard countries, the gold standard coin is the only legal tender coin, while other coins only act as an auxiliary currency; thus the very impossibility of maintaining gold coins in circulation to a

appreciable extent speaks against the adoption of the gold standard for China.

But it may be argued that there are countries which have adopted the gold standard, but which have no extensive circulation of gold coins; in such countries some of the silver coins also share the function of the legal tender along with gold coins. The gold coin, however, is really the standard and it is found in circulation. But, generally, to a greater or lesser extent, they are held as reserves while the silver coins alone freely circulate, such countries being France, Belgium, Switzerland, Italy, Greece and Holland. This is known as the limping standard, which is unsuitable to China, for exactly the same reasons as the gold standard is not suitable.

Gold Exchange Standard.

The next possible scheme is the adoption of the gold exchange standard which has been adopted in India, Java, Strait Settlements and the Philippines, and which was in force in Siam and Japan before they finally became gold standard countries. This scheme has been very much advocated for China and hence it deserves special attention. Dr. Vissering is the only great authority that has given out a co-ordinated scheme of reform and the steps by which it is to be achieved; for the sake of convenience and also because the learned doctor's scheme has attracted considerable attention, I take his proposal as the basis for my criticism.

Few will disagree with the learned doctor that a change is absolutely and urgently necessary; and there will also be general agreement with regard to his statement of the disadvantages of the present system of currency based on

the silver standard. But he has failed to show how the silver standard itself is responsible for all the uncertainties in connection with currency in China. Now let us consider his scheme, i.e., the adoption of the gold exchange standard and the several steps necessary to complete the introduction of currency reform. I have already given a summary of Dr. Vissering's scheme; therefore I do not propose to recapitulate the details of his scheme. I will endeavour to show that, however logical his scheme may be, it has a number of flaws which the learned doctor has evidently not considered; and it is neither practical nor possible in the present circumstances. The fundamental of the gold exchange standard system is the token coin. Dr. Vissering himself admits that raising the intrinsic value of any coin would mean a sudden disappearance of the entire circulation into the melting-pot, if the intrinsic value is by any freak of the silver market above the nominal value; otherwise there is the danger of "honest" counterfeiting. The reason is obvious. The Chinese have long been accustomed to have the medium of exchange at its mere intrinsic value, whether in bullion or coin, in any shape or size. The only remedy, according to Dr. Vissering, is to have the margin between the real and nominal value rather broad, and coins can be issued under such arrangements, only when the Government is powerful enough to prevent counterfeiting and defends its frontiers against the introduction of counterfeit money from abroad.

Therefore, he proposes to do for a time without token coins, and let the present currency circulate while, at the same time, having a book unit or a unit based on gold.

As Dr. Vissering's experience has been practically confined to Java, he points out that such a system has succeeded in the Netherlands Indies in the final ousting of the old silver standard; ergo, it ought to succeed in China.

The great mistake of this scheme is that it ignores altogether the local situation. It is eminently absurd to compare Java with China, although Dr. Vissering admits that the experience of Java is only on a small scale. First of all the people of Java have had no traditions; as a matter of fact they had no coin of their own, which circulated even for two decades; they are people who are mainly agricultural, and on a very small scale; and they have as little to do with foreign trade as possible. Practically every scheme adopted in Java was for the benefit of the Dutch colonists, who have complete control of the foreign trade as well as of agriculture, mining, etc.; the Chinese do all the retail trade; so much so that the Javanese have neither the control nor the interest in any of the affairs of the country. For instance, of the land ceded by the Government for private agriculture under the Agrarian law of 1870 2,500,000 acres belonged to the Dutch, 304,000 acres to the Chinese and about 30,000 acres to the natives of the country. Coffee, tea, rice, indigo, tobacco, copra and tin lands practically all belong to the Dutch colonists; and a good portion of them are Government monopolies, 24 per cent. of the revenue of the Colony being from Government monopolies. It would indeed be surprising if, with all the foreign trade in their hands, and a domination over the country, the Dutch people had not adopted the gold or gold exchange standard, especially as all their

trade has been with the gold countries. Another point worthy of note is that exports always exceeded imports ever since 1898; during recent years the difference was as high as 50 per cent. Therefore, the Netherlands Indies has been for some time a creditor nation and the gold countries had to pay considerable sums to the credit of the Dutch merchants of Java; further, the standard did not affect the natives of the country, especially as exports were practically in the hands of the Dutch colonists. Moreover a gold exchange standard helps in the case of imports, the wholesale business in which is also in the hands of the Dutch, by making the Javanese pay more than they otherwise would in silver. Is this the system that Dr. Vissering recommends for China? If too much stress is laid on the interests of foreigners in China it would lead to a situation not acceptable to the Chinese people. In China the exports are fully in the hands of the Chinese and their interests are paramount over those of the foreign importers, from their point of view; if the Chinese are not able to export sufficient quantities of their produce they would have to stop buying foreign goods or borrow money from the foreign countries in order to make up for the adverse balance. Therefore, Dr. Vissering's proposal is not beneficial or suitable for either Chinese or foreigners.

It may be asked why the gold exchange standard, which has been introduced and found to be admirably suitable to India, should not be suitable to China? There is a great difference between the method proposed by Dr. Vissering and the one adopted in India. To grasp the whole situation one has to compare the respective positions in India and

in China. Even before the British came to India there was practically one standard coin, and that was the rupee—and its subdivisions. Although there were several rupees minted by the several independent states—as a matter of fact there are one or two besides the British rupee to-day—they were practically all of the same weight and fineness and circulated with the utmost ease. The subsidiary coins, both in silver and copper, had fixed weights and fineness which were rarely deviated from. All that the British had to do was to adopt the most popular rupee and to change the imprints on the coins without even changing the name of the rupee or its subsidiary coins. Currency reform or currency adjustment in India started, altogether owing to the fact of the larger growth of international trade, and the heavy payment which had to be made by India on account of the home charges. Here again, it was the interest of the British merchant and the manufacturer at home that was paramount in the dictation of the policy, so far as the regulation of foreign exchange was concerned. As I have said already, the whole thing was patch-work arrangement; but circumstances helped to benefit the people of India. Including the tea trade, practically no exports in India are exclusively controlled by the natives of the country, as in China; but Indians have also the advantages of doing a fairly substantial portion of the import trade and having a larger share in the manufacturing industry—especially in cotton—than is the case in China. Naturally the changing of the standard did not bring about any serious difficulty. Moreover, it must be distinctly understood that there was no change in the coinage of India for at least 300 years; all that was done was raising the existing coin

to a fixed gold value. Even the new gold unit was not new to India. The growth of foreign trade had already familiarized the people with the British sovereign and the proclamation of it as the standard unit really did not affect a serious change in the business life of the people.

Let us consider the position in China. There is no existing coin that is accepted in every part of China or that has a fixed relation to the subsidiary coins. The Mexican dollar has, as a coin, a larger range of popularity than other coins, but only in the ports. The fact is that even the silver coins vary in value, judged by the measure of copper coins. At present the copper coinage in this country stands practically by itself, frequently fluctuating in its ratio to silver coins, at the bidding of the law of supply and demand. Again, no coin has ever been looked upon with favour except for the amount of silver it contained; I might mention in this connection, the unfortunate fate of the Spanish and Japanese dollars, which were very popular for a while, after which they suddenly disappeared from circulation and got thrown into the melting-pot — because the intrinsic value was worth much more than the coin value. There is, therefore, no existing coin that can be given a fixed gold value. The primary steps in any reform must be to establish a coin which, with its auxiliaries, would prove readily acceptable in every part of China.

There are also other considerations which have to be taken into account. In contra-distinction to the position in India the exports in this country are exclusively in the hands of the Chinese. The position of the trade is such that there is no meeting ground

between exporter and importer, when the currency is on a gold basis, for what is good for the importer is not good for the exporter and vice versa. Even supposing a coin could be fortunately invented, which would prove acceptable in every part of the country, the whole point of the gold or gold exchange standard would rest in bringing about a depreciation of silver. In other words, such a standard would affect the exporter adversely. The importer, on the other hand, can do no business if the exporter is not able to sell his cargo. A mean has to be found that would prove of advantage to both the trades. Such a mean would certainly prove impossible of realization, if the gold standard were adopted in whatever form; for the first result of the adoption of such a standard by China would be a heavy fall in the price of silver.

As it would be difficult to introduce token coins into China, Dr. Vissering proposed to introduce his reform by the establishment of a bank unit or a theoretical unit with a fixed gold value. Such theoretical units exist in the English guinea and the yen under the present monetary regime in Japan—in the olden times there were theoretical units in the Dutch Bank Guilder and Banco-Mark of the Hamburger Giro Bank. Even to-day, practically all the official, trade, and Customs units of money in China are theoretical and have no coin to represent them. The tael itself has several variations, all of which are purely book monies. This is certainly satisfactory from a theoretical point of view; and if, as Dr. Vissering has proposed, the co-operation of the foreign exchange banks and the private Chinese banks and bankers for the introduction of the new gold unit into their book-keeipng is sought

and obtained, there is certainly no doubt that the unit would have to be accepted as the money of account, while dealing with the banks. But what is there to prevent this new unit existing side by side with the Haikwan and other taels, without ousting them? At every port, every merchant who receives or dispatches goods has to pay his duties to the Customs in the Haikwan tael; and it is not generally known that when this new tael was introduced by the Customs, it was sincerely believed that it would unify the numerous currencies in the country. Or again, every province has to send its revenue and accounts to Peking in the Kup'ing tael, and this has been done for 200 years; still each province, as a matter of fact each city in every province, has its tael, i.e., its tael of account. I really cannot see how the adoption of the new bank unit along with the existing sycee, dollar, etc., is going to improve the currency position. Even when the next step, proposed by Dr. Vissering, of forming a central bank of issue and issuing bank-notes based on the gold unit is adopted, how would the position in the country change? The result is likely to be that this unit would become another money of account and the notes would circulate like the notes of any foreign bank or, possibly, would be just like treasury bills. It is not worth while going into the several steps which have been proposed by the learned doctor to introduce a gold exchange standard into China. I have stated enough to show that the basis on which his scheme rests is utterly unsound. Therefore, the only alternative basis on which any scheme for currency reform for China could rest is the silver standard.

Chapter IX.

THE SILVER STANDARD

To those who have long been accustomed to think in gold and who have constantly believed what is good for Europe must be good for any other part of the world, the step I now propose may appear retrograde. The basis of theories in currency reform is that there must be a uniformity in the monies of all the world. As such uniformity is only just as practicable as universal peace, it is not worth while making any attempt to controvert such an argument. So long as economic forces must in the end settle the relative value of commodities, there will always be fluctuations in exchange, whatever may be the standard of the world. Again, the advocates of the gold standard appear to ignore history altogether; also that this recent growth in currency can be hardly claimed to be perfect, as France, which is the greatest hoarder of gold, has also silver as partial legal tender. Even in actual gold standard countries like Russia, Japan or Siam, silver still rules the roost as metallic money, while paper money is the principal medium of exchange in all transactions. A point which is not sufficiently recognized by advocates of gold is that conditions of modern trade are approximating more and more to the ancient system of barter—only with this difference, that the bank serves the purpose of the middleman. Instead of currency of any kind changing hands with each transaction as in former times, no money changes hands in

big transactions at present. A party that buys produce gives a cheque on the bank not exceeding the amount of money that he has deposited with it; he sells again some other article to another party and receives a cheque which he pays into the bank; and this buying and selling through the medium of cheques goes on ad infinitum. The effect of such a position is that trade worth millions of sterling is carried on with practically no use of any currency whatsoever. It is the development of this system that has facilitated the introduction of gold in Europe.

Now consider the conditions in China. There is no credit in the proper sense of the word in any part of the country; and although the native order and the bank draft system correspond to the bills of exchange and cheque systems in foreign countries, the trade necessitates a much larger movement of currency than in any part of Europe. It is partly due to the old tradition, and partly to the fact of long distances, and want of communications; and the numerous exchanges in the country militate against insuring confidence of any one part of the country in another. There is also another disadvantage which is inevitable in countries which have a vast area like China. The organization of currency has been easy in Europe because of the facility of the early and easy control of the currency, even in the remote parts of the kingdom. It is understood, of course, that in case of panic or serious local or national disturbances metallic currency alone would help to ease the tension; so any steps taken by the authorities should be such as can be speedily applied in every part of the kingdom. Within a small area as in France, England and Germany and in normal

times the difficulties could easily be adjusted. There are, however, exceptions, as in the case of the United States or India. In the United States the situation is simplified by the great development in inter-communication—that country alone possessing half the mileage of railways in the world; moreover, it is a new country with no old traditions or customs, composed of people who are mostly emigrants from Europe. The communications in India are certainly better than those of China, although one cannot in the least compare them with even the most backward country in Europe; but India has always the prop of the London market and this helps to ensure confidence. China on the other hand has neither sufficient communications nor any country to look to for support.

China Must Begin With Silver.

It is evident, therefore, that the best plan for China would be to work with the material available and perfect whatever system she has, in consonance with the established traditions. Although she might have to borrow, in order to bring about an effective reform in her currency, China must in the end rely upon only her own resources. Thus any scheme of reform should take into consideration the local national wealth, which is almost entirely in silver. The Government has its first duty to its own people; and, on no account is it wise for it to bring about a depreciation in the value of the national wealth. Also, it is the paramount duty of the Government to take such steps as would ensure a sale of Chinese produce, at least to an extent enough to meet

her annual trade liabilities, if not to have a margin in China's favour.

Depreciation in Values.

It may rightly be asked how such results could be obtained by having silver as the standard. It may further be argued, that the tendency of silver is to depreciate in terms of gold, and China sticking to silver is not going to help any. There is a very minute distinction between the depreciation of silver and the depreciation of silver in terms of gold. The depreciation of silver means the reduction in its purchasing power of commodities, which is really of greater importance than the depreciation of silver in terms of gold, which only means that gold became valuable in terms of silver. People confuse the issue, by taking the depreciation of silver as synonymous with the fall in the gold price of silver. What has happened for the past two decades, up to the latest war, is that gold has become less valuable in terms of commodities, or in other words there has been a general rise in prices. The effect on silver has been as follows: in countries where all prices are in gold the ratio between silver and gold has been gradually falling; on the other hand, in countries where prices are in silver the position has been affected, and not even fully, only with regard to goods with gold prices. Consequently in China the depreciation of silver in terms of gold has not been followed with a rise in prices to the same extent as in Europe, or in countries having a gold or gold exchange standard. On the other hand, it has brought about a better adjustment of the trade balance by contributing to a large

increase in export of commodities, because the gold price allowed of a larger profit to local producers. If the gold or the gold exchange standard were introduced into China the first effect of it would be to dislocate this trade altogether, because of the reduction in the margin of profits to the exporter.

Uncertainties of Exchange.

The argument that the retention of the silver standard would mean the continuance of the present state of uncertainties in exchange is worth serious consideration. It is certainly a fact that the uncertainties of to-day constitute a serious impediment to the growth of commerce. But the various exchanges within the country itself are more responsible for the uncertainties in connection with the exchange that the retention of silver as the standard. Before taking any steps with regard to changing the standard, it is of the utmost importance that the currency of the whole country should be unified. If after such a result is once achieved it be found that the retention of silver constitutes a disadvantage, then it is worth while attempting reform in that direction.

Importance of Metallic Currency.

The essential of any reform in the direction of changing the standard to gold or gold exchange is the introduction of token coins and notes. The advocates of such a change admit the difficulty of the introduction of any such coins at this juncture—gold being too big and too valuable to be of any practical use and a token coin being too dangerous to introduce. There is a general unanimity with regard to

the issuing of notes in order to help out the situation. In my opinion, however, it would be a suicidal policy for China to introduce paper money in any form for whatsoever purpose, at present. For centuries paper has been distrusted; and during recent years the large issues of paper money and the serious losses which the public has had to suffer have led people to look upon paper with the utmost disfavour. Whatever course is taken should be such as to inspire confidence in the Government; and nothing would help so much as the heralding of currency reform with the issue of proper metallic currency, on the principle of weight for value.

Unification of Local Currencies.

The question of the utmost and urgent importance for China is the unification of the several local currencies. It cannot but prove to be a task of extreme difficulty and one requiring a liberal exercise of tact. Whatever standard is advocated for the country the unification of the internal currency should be attended to at the outset. As it has to be done in any case, it is quite unnecessary for me to discuss the effect of the adoption of any particular standard on the settlement of this question. Considering that the country has long been accustomed to measure all wealth by silver, it does not need much of an argument to show that the adoption of the silver standard would facilitate the task. The objections to the silver standard can only arise from those who view the currency question purely from the standpoint of international trade. From this point of view certainly there are very plausible and seemingly unanswerable objections to the silver standard.

Silver Values.

The value of silver varies from day to day and some times from hour to hour, in terms of gold; and the argument against silver will be that, if the silver standard is continued, there will still remain the uncertainties of exchange that are inseparable from China trade at present. It should be the object of every reform to bring to a minimum the chance of fluctuation in exchange, although it is beyond human power to do away with fluctuating exchange altogether. But minimising the fluctuations in exchange has nothing to do with the economic forces which determine the variations in the prices of different articles, and which again have nothing to do whatsoever with the currency or standard. Therefore, the statement that the adoption of the silver standard will only result in the retention of all present uncertainties of exchange is utterly wrong, and is based on an incorrect appreciation of the situation in countries where the sole medium of exchange is silver coins.

Gold or Silver.

There are several fallacies inherent in the time-honoured argument that gold does not change while silver fluctuates violently. Gold is as much a commodity as silver, wheat, cotton or sugar. Through a perverted training of the average public, it is wrongly believed that while gold remains always somewhere near £3.17.9 per oz., silver has varied from 22 to 36 pence, cotton from 4 pence to 8 pence and likewise other commodities. The mistake has arisen in this manner; while gold is valued in terms of itself, other commodities

are valued in terms of gold. The proper method is to value gold in terms of commodities, as the commodities are valued in terms of gold; and when, by such means, the effect of interplay of economic forces is understood we can arrive at the proper relation between gold and all other commodities. Judged by this standard, during the course of a number of years, gold has been varying in value quite as much as silver or any other commodity. The greater or less supply of gold has influenced its value quite as much as the greater or less supply of silver or wheat; and economic forces have had the fullest influence over gold, equally with silver, cotton or wheat. It is wrong to hold that gold has an intrinsic value and that its buying power is of secondary importance.

Economic Forces Determine Values.

Gold has become the standard of convenience in the Western World; and it happens that Europe has a great influence in the shaping of the destines of the East, including China. It is being flippantly advocated to bring the standard in China to the level of Europe—whether it is suitable for, or advantageous to, this country or not. From the point of view of international commerce it would make no difference in the long run what the standard may be, because the forces that settle values are beyond the control of any standard. But the question is one of bringing about a smooth working of the programme without interfering with the conditions of life and trade. The foreign merchant rightly complains that the fluctuation in the gold value of silver nullifies all his calculations, on the basis of which he does his business. It is a truism

that China trade partakes more of the nature of gambling than actual trade. As gambling is not an enterprise that should be allowed to survive longer than is necessary, the great fabric of China trade built upon an analogous principle is rightly seeking to emerge from its thraldom.

Currency and Prices.

I have shown already that the gold standard would be disastrous to China as well as foreign interests in China; the latter would be affected badly by the economic disturbance that would result from the adoption of any ill-considered plan for the reform of Chinese currency. But it is surprising that few have realized that the uncertainties in exchange could be minimised with silver as the standard. The unification of internal currency — the method by which it could be brought about, I will detail in the following chapter—would by itself bring about a great deal of stability. In considering the questions connected with exchange, the mistake is often made of paying no heed to questions connected with prices. A fixity or uniformity in exchange is of little value if prices fluctuate heavily. The significance of a given amount does not lie in the numerical total, but in the amount of commodities it would be able to purchase. Considered from this point of view the currency of even India is far from perfect, and China should avoid the pitfalls of reform in India. While the rupee has been standardized in terms of gold, until recently no gold circulated in the country; and even now the total of gold circulation is surprisingly small. If in the near future any proposed silver coin for China is standardized in terms of

gold the position would, so far as circulation of coins is concerned, be no better than in India. In the meanwhile, the effect of the standardization in India has been a very large increase in the value of commodities; prices have been soaring up year after year so much so that the Indian Government has had to appoint a Prices Enquiry Commission. What effect the rise of prices in India has had, it is too well known. And the effect of the rise of prices in China would certainly be worse; it is not at all improbable that the result of it would be that, not only would it bring about untold suffering to the poor Chinese but that it would check the volume of international trade—by first reducing exports and then reacting upon imports. Therefore, the proper way to look at the question is how to bring about a steady exchange which will, at the same time, not lead to unnecessary fluctuations in prices.

Variation in Silver Values.

An objection to the silver standard which seems almost insurmountable to some is the constant variation in the value of silver. It is well known that every transaction in the trade of China to-day means not only the fixing of the value of the commodity, but also of the money or the medium of exchange. This double transaction naturally restricts the volume of business which might otherwise be possible. It does not follow, however, that the result of the transaction is more favourable to one party or the other, than would be the case, if the fixing the value of the money is eliminated by the adoption of a proper standard of value. As prices are more or less regulated by the interplay of economic

forces, the factor that really counts in the way of restricting business is the inconvenience of maintaining a variable standard. But would the adoption of the silver standard mean invariably a large fluctuation of silver in terms of gold—provided that the local exchanges in the country are all done away with? So long as China is a political entity, the inconvenience and the futility of maintaining the several different exchanges cannot be sufficiently emphasized. Once steps are taken to bring about the uniformity of currency for the whole country, then, of course, will come the proper time to enquire whether gold or silver would prove advantageous as a standard. Until the unification is complete, therefore, it is essential that the measure of value should continue to be what it has been so far; i.e., it should continue to be silver. Whatever variation might take place in the value of silver during the interval, such would only affect the Chinese in the matter of the payment of interest and amortization on loans; so far as foreign trade is concerned the experience would be nothing new to her. But I believe that the definite adoption of silver by China would help to steady the value of silver and thus reduce the range of fluctuation of the value of silver in terms of gold.

Why Silver Depreciated.

It is unnecessary to go into the causes of the fall in the value of silver. For several centuries prior to 1870 silver stood more or less in the ratio of 15½ to 1 compared with gold —although at one time the ratio used to be much less. The increased production of silver for a while, the growth of manufactures in Europe

which necessitated the holding of the money within as small a compass as possible—in the absence of the modern credit facilities—the desire of the European nations to make not only a profit on commodities but also a profit on money, and, above all, certain inherently superior qualities of gold as a metal conspired to enthrone it as the sole standard and measure of value, and dethrone silver, which was before 1870, a co-standard and co-measure of value. Although the employment of gold and silver in the arts is no small proportion of the total production, they gained their prestige from being employed for coinage. Ever since the adoption of the gold standard, coinage in gold increased while simultaneously coinage in silver decreased considerably. Before 1870 the principal medium of coinage was silver, although gold was always valuable. Every country had silver coins of several denominations, every one of the coins being weight for value. The adoption of gold meant that silver coins, being only tokens, need not be weight for value. The bigger silver coins were replaced by gold and the smaller coins by nickel or some other base metal. While the prestige of silver suffered badly in this manner, the situation was aggravated by the issue of paper money of small denominations. It would seem, on the face of it, that the issue of paper money would affect both gold and silver; as a matter of fact, however, it did not affect gold, because the reserves at the back of the paper money were in gold; and silver was ignored altogether. There have been, besides, a number of contributory causes that helped to bring down the prestige of silver, but it would be out of place to discuss them in this connection. But, as the main complaint has been that silver has

depreciated in value, I thought it worth while mentioning that such depreciation was the result of the persistent efforts of the governments adopting the gold standard. Silver had still to be used in the token coins; but the governments always endeavoured to put in as little of the intrinsic value of the metal in the coins as possible; when, however, special circumstances tended to raise the value of silver as in 1906, they reduced the amount of silver in the token coins. In the face of such efforts, it is absurd to talk about the unreliability of silver, as a standard, on account of the depreciation in values.

China to be the Steadying Force.

I do not want it to be understood that I am putting in any special plea for silver. As my readers might have noticed already, I have started on the basis that as the wealth of China lies in silver and as currency reform is essential for progress, any plan suggested should be such as not to dislocate national life and depreciate national wealth. With such an end in view I believe that silver is the only standard that could be adopted by China, not only for the reasons advocated by such an eminent Chinese statesman as Chang Chih-tung but also for more cogent reasons. For this purpose, I have taken pains to show that it is fallacious to hold that gold does not change in value or silver always fluctuates. I have shown that the drop in silver has been brought about by legislative activity and not through purely natural economic causes. I will also endeavour to prove that the adoption of silver as the standard by China is not only necessary for her, but also necessary for

the world—as a steadying force in the relation between money and prices.

Standard and Credit.

The metal which constitutes the standard is of less importance to-day than it was in 1870; because during these years an enormous superstructure of credit has been built upon a very small supply of actual money. It would have mattered extremely little, during the past ten years, whether the reserves were held in gold or silver or in any other metal —so long as there was an adequate supply of it. Modern business has once again returned as near as possible to the ancient system of barter, i.e., exchange of commodities for commodities, with as little intervention of actual money as possible. Thanks to the aid of the banks, and the credit system in general, business in its essentials to-day is nothing else but a glorified barter.

Silver Necessary.

Three-quarters of the production of silver to-day is absorbed in the arts and the balance is used for coinage. As, year after year, more countries have been going in for gold the amount needed for coinage has been reducing in normal years; but even countries which have adopted gold are not able to do away with silver altogether. Countries like India, Russia, or the Argentine, that have adopted the gold or gold exchange standard, have had from time to time to buy large quantities of silver for coinage. When they bought for coinage, as was the case in 1907 or 1912, the adjustment of supply to demand was interfered with and prices

moved up. In all South American countries, or even in Japan, where the standard is gold, the real currency is only paper and silver. In the Agrentine, Brazil, Chili and Peru the Governments and the people simply live upon inconvertible paper money and the currency difficulty in South America, in spite of the gold standard, is quite as great as, or even worse than, that of China. In Brazil or in the Argentine values fluctuate so heavily and exchange falls or moves up so rapidly that business with those countries is even a worse gamble than business with China. It follows, therefore, that the mere adoption of gold does not bring about in its wake steadiness in prices or in exchange; and if the South American countries had not jumped too rapidly to gold in order to conform to the practices of Europe, they would have certainly fared better.

I believe that the definite adoption of silver by China would bring about steadiness in the value of silver; and that it will also help towards maintaining the value of silver, which it has been the practice of gold standard countries to depreciate as much as possible. The ideal system would, of course, be the one that prevailed before 1870 when there was a certain amount of fixity in the ratio between gold and silver; as China is the only big country that has not gone over to gold, her silver standard would act as an equipoise and tend to bring about fixity in the ratio between the two metals.

Production of Silver.

It may be argued that this would lead to a free and larger production of silver, which is certainly not wanted in the present

circumstances. It is a statement of fact that, since 1890, when silver prices began to fall heavily, the production of silver has been considerably restricted. There was, however, talk of opening up the mines, that had remained closed for a long while, in 1912, when the possible demand both from India and China appeared to be sufficiently large. The collapse of prices is only too recent to need any special explanation. But the production of silver is not the only one that would have to be regulated. There were alarmists who predicted that a very large increase in the production in gold would lead to a large increase in prices. There is no doubt that prices did rise enormously when the production of gold increased 50 per cent. in the course of six years. The fortuitous circumstance of India being able to absorb a large part of the supply during recent years and the political crisis since 1911 culminating the present war, postponed what would otherwise have been a momentous question to-day. If the production of gold had remained at its present total, without any corresponding demand, prices would have risen so much that in the natural course of events either the production would have had to be reduced or some other arrangements made involving practically the dethronement of gold as the sole standard of value. On account of the war, and the economic condition likely to result, and to be felt for decades to come, the question of the relation between money and gold supply is likely to need a better adjustment. When such a time comes it is better for China not to have an additional mill-stone round her neck. It is not at all impossible, that, in the near future, the relation between gold and silver, including production

and demand and their relative values as money, would have to be put on a new basis.

Even supposing that conditions continue to be what they are to-day, the adoption of silver by China is sure to restrict the range of fluctuation in values. When the fluctuation of the prices of commodities in the interior is kept within normal limits and is solely regulated by economic forces, apart from currency, the chances are that the prices of the same commodities in international trade would show relatively small variations. As the foreign trade of China is conducted almost exclusively with gold standard countries the steadiness of prices in this country would exercise a great deal of influence in other parts of the world. I have shown in "Finance in China" how, apart from other causes, the course of foreign trade in China has had a particular effect on silver values. There is every reason to believe that the steadiness of prices in the interior would make its effect doubly felt on silver and prices, also in other parts of the world. In brief, the effect will be to keep the fluctuations of silver prices within very narrow limits. After a while, it would be easy to bring about a more or less fixed ratio between gold and silver—although, of course, it is not at all improbable that the production of gold and silver might have to be regulated from time to time.

CHAPTER X.

FIRST STEPS IN REFORM

For several centuries China has been accustomed to use silver at its intrinsic value; in many parts of the country—as a matter of fact, more than three-quarters of the area in China—even silver is too valuable for the ordinary transactions. For all practical purposes, the only recognized currency of the country is a small copper or rather a brass coin with a square hole through the centre and certain mysterious characters displayed on the margin. This copper cash has been the standard of value for centuries. Until the reign of Hien Feng, the copper currency was more or less carefully regulated. The war with England and the gradual deterioration of the finances led the Ministers of that Emperor to attempt the wholesale debasement of the copper currency. The old copper cash were called in; tokens representing 5, 10, 15, and 100 cash were coined instead, while an attempt was made to foist on the people in place of the ordinary cash a new coin somewhat resembling it in size and form. This introduction of the new coin is not new to the history of China, but this is probably the first occasion when tokens were issued in China. The provinces simply would not touch this token and, in 1864, during the Taiping Revolt the tokens were simply sold as old brass. Since then, of course, after several tussles between the people and the Government, the copper coins (including the ten cash coins issued from the new mints),

practically all became tokens. But the people got their own back on the Government by accepting these coins only at a great discount. At first, of course, when the new ten cash pieces were introduced, the appearance of the coin went a long way to induce the people to accept the coin with as little discount as possible; later on the promiscuous and ever increasing issue of the ten cash pieces lead to an unprecedented depreciation in values.

Silver and Copper.

The question that confronts any proposal for reform is to fix the ratio between silver and copper. It must be understood that even trade transactions away from the ports are conducted mainly in cash, except for certain commodities; for instance tea, beans or cereals are all exchanged for cash, i.e., instead of stating the price as a foreigner would do as Tls. 20 or Tls. 30 the Chinese state 20,000 cash or 30,000 cash—according to the rate of exchange for the day. At one time, before the innovation of making a token of the copper cash, the exchange between silver and copper was kept fairly steady; even although, owing to the various touches and fineness of the several silver standards in different parts of the country the value of the standards varied, the position with regard to the copper coinage, which was the only coinage at the time, led to a greater uniformity in values than is apparent to-day. Strictly speaking, it is wrong to state that silver has ever been the standard, in the modern sense of the word; the real standard has always been copper. And the cause of all

the later trouble with regard to currency was the foolish acts of the later Manchu Emperors tending to depreciate the value of copper coins.

A proper understanding of the difference between the situation in China and in England or India, is necessary in order to grasp the significance of the enormous difficulties in the path of currency reform in the former country. When the gold standard was adopted in England, gold and silver had a fixed ratio of value and copper or brass coins were only tokens. In India, silver was the only standard with no fixed relationship to gold, while copper coins were only tokens. In these two countries, taken as the types of gold and gold exchange standards, there were no internal variations of currency. Now let us turn to China; both gold and silver have always been been used at their intrinsic value; although actual copper coins circulated in the interior yet they were not recognized as tokens; and their value depreciated as much as possible in order to bring them to the level of their intrinsic value. Another difficulty was that so many important differences existed between various parts of the country.

The First Step.

Many of these difficulties incident on adopting gold could be avoided by starting on a real silver basis; the silver money in circulation will then always be worth its intrinsic value, unless popular fancy for certain coins plays a part and makes them appreciate in value. The intrinsic value can every day be ascertained on the basis

of the world's price of silver. The danger of counterfeiting would then be reduced, since the coining of counterfeit "good" money with the requisite fineness and weight would leave no profit. Moreover there would be no need for maintaining a fictitious value of the silver in circulation, as the real value would be the only basis; the difficulty of maintaining the parity of the currency in foreign exchange would also be avoided; and the stocks of silver in the country to the extent of their whole intrinsic value would form the security for the maintenance of that parity.

Token Copper Coins.

But that does not settle the position of the copper coins. Modern conditions preclude the possibility of having a circulation of copper coins at their intrinsic value. The position is that it is unavoidable to maintain an extensive circulation of copper coins along with silver, and at the same time, it is for all practical purposes impossible to have copper coins at their intrinsic value. Reform, therefore, should be directed in such manner that while the silver unit coin would circulate at its intrinsic value the subsidiary coins in silver and copper must become more and more token coins with an artificial or fictitious value. The question of copper coins is a very ticklish question, because in this country the circulation of copper is extraordinarily large; as a matter of fact, in some parts where they predominate silver is rarely seen at all. We have already noted the result of the debasement of copper when the system of having such coins as token coins was

introduced — although this has been very much aggravated by the excessive issue of copper coins from the several provincial mints, as also the general practice of counterfeiting since token coins became the vogue. It is not for a moment suggested that people took to tokens kindly or welcomed them; but so far as copper is concerned the serious evils, especially in connection with prices, that have resulted from the introduction of token coins, might have been averted by a more calculated policy on the part of the Government. The result of the flood of copper, both from mints and from counterfeiters, has been that silver has almost been expelled from circulation in parts of the country—especially as the excessive issue could not be regulated by the Central Government. From this to jump to the conclusion, as Dr. Vissering does, that the silver standard is ineffective as it has not been able to maintain the nominal value of the copper token coins is, to say the least, far fetched. Tokens were practically an innovation to China, and for any success to attend efforts in connection with their introduction a proper Government control was essential. When the tokens were introduced the country was rent asunder by the Taiping Rebellion; China was altogether dependent, especially for copper and other metals for coinage on imports. The introduction of foreign trade in a much larger ratio than in the past also had an effect on copper coins, as on other things in China. But one should take note of the significant differences between silver and copper, in the eyes of the Chinese. While silver, along with gold to a very infinitesimal extent, was considered as the national wealth of the land or while people looked upon gold

and silver as the best form in which their belongings in this world could be concentrated, they always considered copper as a convenience with which they could transact the daily business of life. To put it concisely, the Chinese have for ages considered copper as the medium of exchange. It made no difference whether a medium of exchange had any intrinsic value at all, so long as it served its purpose; and if Chinese had been accustomed to have copper coins weight for value, it was mainly incidental. Prejudices or traditions that have had the run of the people for centuries exert a considerable influence; but they could be got over so long as nothing vital to the life of the people is affected. The Chinese have considered copper coins solely as mediums of exchange; when they did not obtain weight for value they protested. Later on the protest grew to be of less and less volume, and possibly might have died out, but for the blundering policy of the Government. Hence, a reform which makes copper coins tokens should meet with no objection at all, at present, if only it is properly regulated.

Regulation of Copper Currency.

As there is no insuperable difficulty whatsoever as regards the acceptance of copper coins by the Chinese as tokens pure and simple, the only thing that remains for the Government to do is to regulate the supply. The success that originally attended the issue of the ten-cash or the one-cent piece and the large profits which the provincial governments were able to make out of such coinage led to the flooding of the country during the past twenty-five years with

innumerable ten-cash pieces. The trouble was accentuated by the fact that while there was no one-cash coins in sufficient numbers except old and debased coins, there were none at all between the denominations of the one-cash and ten-cash pieces. In a country where the majority of families are able to live with a tolerable amount of comfort at an expenditure of about fifty to sixty cash per day, it is necessary to have coinage intermediate between the one-cash and the ten-cash. Of course, it is not to the advantage of anybody to revert to the coinage of the cash once again. But a fairly large number of five-cash or half-cent pieces would bring about a considerable freedom in the regulation of copper currency. The introduction of a five-cash or half-cent would also help toward throwing into the melting pot the existing cash coins, including the counterfeit ones. In any case, the first step of the Government, simultaneous with the attempt to regulate the supply of the newly minted coins, should be the withdrawal of the existing cash coins—which would only be possible when there is a sufficient number of five-cash pieces. In spite of all the harm the inordinate issue of the ten-cash piece has done, there has, however, been one advantage; people are accustomed to the use of this one-cent piece, the weight and fineness of which are practically uniform throughout the country. They have already displaced the use of the cash considerably; if they have not altogether displaced the cash, it is because they are too big for the daily life of the people of the interior.

I believe I have explained sufficiently the necessity for not losing sight of, and taking full advantage of, the old traditions.

When this is understood, the surprise that one should begin with the cash in any proposals of currency reform for China, would be easily got over. In every country in the world, which has more or less an independent life and trade, currency reform has been built up on the foundations of the existing values. For instance, in England the sovereign existed long before it was worth twenty shillings, no more or no less; in Japan and India Yen and Rupees pre-dated the assignation of fixed gold values. So in China one has to begin with what has been existing for ages. A careful study of the history and the traditions of China shows that from time immemorial the only recognized coin in China was the cash. Even when paper money was issued, as under the Mings, as early as the thirteenth century, —as a matter of fact even under the Mongol dynasty at an earlier period—notes were in denominations of from ten to 2,000 cash. The tael, of course, existed from time immemoral and its regulation value was 1,000 cash, although at various times the value has fluctuated considerably. But the tael has always been a weight, and never a measure or standard of value. The cash, of course, had a certain fixed value, and the weight has varied in different parts of the Empire at different periods. Nevertheless it has remained the only standard for China, although it has no right to be called a standard, in the modern sense of the word.

Copper Coins Foundation of Reform.

I am firmly convinced that the cash should be the foundation of currency reform. So far reformers have taken too little stock of the power of the cash; they have begun

with the tael or dollar as the case may be and have descended to the one-cent or ten-cash piece—with the exception of Dr. Vissering, who with his greater knowledge of banking and local conditions in this country, has advocated the minting of a half-cent piece. But every scheme, including that of Dr. Vissering, is vitiated by the fact that an artificial standard is set up at first and the descent is to be made to the cent or half-cent piece, which is to be allowed to remain as ten-cash or five-cash. When thus the whole foundation of the ancient Chinese currency polity is turned upside-down, it is no wonder that none of the proposals have ever been practicable or popular.

The Cash and the Tael.

The best scheme, therefore, is to start with the cash which has been the standard in China for tens of centuries and build upwards. The Chinese people themselves would be ready to admit that as a standard the cash is too low, in view of the development in trade, not only throughout the world, but also in China. The best compromise which, while meeting modern conditions in trade, would also be acceptable to the Chinese, would be to have as a standard a multiple of the cash. Such a multiple exists in the currency of the country, although not in coin; in all business connected with foreign trade the tael is the currency of the land; every child knows that a tael is ten mace and a mace is ten candareens and a candareen is worth ten cash, so that the tael, properly speaking, ought to be worth 1,000 cash. Although this fact is recognized, various causes, to which reference has already been

made in the earlier chapters, contributed to make the tael variable in terms of the cash in different parts of China. The conditions that have contributed to the variation in the value of the tael are more or less purely local, and amenable to the control of the Government. I do not mean simple legislative control, which does not go very far in this country; but trade conditions and transportation, and, most important of all, the payment to or receipts of the Government are to a large extent controllable by the Government, in such manner as not to disturb the several local conditions. By slow degrees a fairly fixed relationship could be brought about between the cash and the tael on the basis of the established traditions; how this is to be done is, of course, worth careful inquiry.

Objects of Reform.

The ultimate objects, which a present monetary reform ought to have in view, are a fixed currency with a stable value tending to a certain amount of fixity in prices; (2) preventing the undue fluctuations in the value of commodities; (3) an influence helping to keep at a reasonable level the price of commodities which are necessaries of life to the Chinese; and (4) an agency tending towards a favourable balance of trade for China. The countries that have adopted the gold or gold exchange standard have been intent on securing one or other of the four objects mentioned above, while paying little attention to the rest. Experience has shown that there is no use of having a fixity in value, if prices go on rising; or a reduction in the price of commodities, which are necessaries of life, if the trade of the country

continues to pile up an adverse balance against it. It would, of course, be foolish to suggest that currency alone should achieve, or effect, more than the regular play of economic forces. But currency can either help or deflect the regular course of economic forces.

Tradition and Currency.

Therefore, care should be taken that there is no violent change in the existing situation. Even Dr. Vissering, who advocates the immediate adoption of a gold exchange standard, with a view to the final adoption of gold, admits that in the meantime it would be necessary to maintain a free circulation of silver coins, circulating at their own intrinsic metal value and also of copper coins; and that it would be much wiser to leave the existing silver and copper coins in circulation as long as they are of real use to the community. How illusory such a statement is, is proved by the reference to existing conditions, especially if one knows what the silver coins are that circulate in China. Dr. Vissering in the same breath says that, as far as silver currency is concerned, the people in the interior are not accustomed to using dollars as coins; perhaps it would therefore, even prove advisable in some places to prepare the way for a subsequent use of token money by first making the population gradually accustomed to the use of silver money as coins. The real fact of the matter is that silver does not circulate in China as currency. The dollar and the various coins other than the dollar that circulate in the ports and in a few of the interior towns are mainly used by foreigners; the few Chinese that take it, take it purely as silver and not because it is a recognized coin. In no part

of the country is the dollar the money of business. Every commodity in China is priced principally in cash and secondly in taels. The tael, of course, is known to be an absolute weight in silver. The only way in which the tael is used as currency is in the shape of sycee. The sycee is known to be a horse-shoe shaped lump of silver with a certain degree of fineness, weight, and touch —these three attributes varying differently with different places. For purposes of actual trade, the sycee performs the same function as the gold reserves in the banks of Europe. The several trade transactions in this country, as in other parts of the world, do not involve the frequent movement of the sycee from one place to the other, although actual silver is moved more often in China than in Europe. As the great majority of people of the country use only copper in the course of their routine of life, silver is used by them only for purposes of hoarding. Thus, neither in trade nor in the daily life of the people, is there any circulation of silver in China. It is noteworthy that almost all the several kinds of silver coins that were introduced since the close of the eighteenth century—the Spanish or Carolus dollar, the several kinds of Mexican dollars, the American dollar, the Japanese yen, the Indian rupee besides numerous other coins—have all been thrown into the melting pot or turned into sycee. The attempts of the Chinese Government to introduce the dollar or other kinds of silver coins have also been equally fruitless; ever since the Canton mint began to issue dollars in 1890 there has been a perpetual wrangle between the Government and the public; the Government minting the sycee into dollars and the public melting the dollars into sycee. Recently the

dollars that were minted as late as 1913 have all been converted to sycee, mainly because the dollars are neither negotiable with the public in the ordinary walks of life nor usable in trade. For a short while, especially after 1908, subsidiary silver coins were thrown out in large numbers by the mints and appeared to have a great hold on the Chinese public. The provincial governments issued large numbers of these coins, because of the large profits they obtained in their mintage; and the public readily took them because their denomination and value were such as to make them usable in the market. Of course, what the Government gained the public lost; as in the case of the copper token coins, these silver subsidiary coins had their values regulated, according to their intrinsic value in silver. Even these are now being thrown into the melting pot, because, according to the Chinese, there are too many of them moving about. Few would have the temerity to assert that during the period that the mints have been in existence in China the amount of silver subsidiary coins put forth by them could in any way compare with the total issue even by the small countries in Europe during a third of the period—although there is no doubt that the issue of the coins was badly regulated. Nevertheless they are being turned into sycee at great loss in many instances. The reason is that, so far, no coin that has been put into circulation in China has been such as really to suit the people or conform to their traditions.

Use of Coins.

The statement that the people should get accustomed to the use of coins has a certain modicum of truth in it, although

any project making a silver standard coin worth more than its intrinsic value is sure to fail. In spite of the antique methods and want of technical knowledge in connection with assaying and testing silver, the Chinese have, through a long process of ages, become adepts at testing the fineness, etc., so much so that even when two pieces of sycee have the same weight the value differs on account of the difference in fineness. It would be absurd to suggest that a people who are accustomed to such practice could by any possible method be made to take silver standard or unit coins as representing fictitious values—and not their own intrinsic values.

It is hard to say what the future may have in store for this country. It is quite possible, as Dr. Vissering hopes, that at the present moment China may be in the borderland of a vast development. So many reforms are likely to be carried out during the next two or three decades and, with the large progress in the construction of railways, etc., the volume of trade is also likely to increase. It is not at all improbable that radical reform might be successfully introduced in taxation, administration of justice, etc. Industry might advance, wages might rise, the general wealth of the country might increase and there might be an economic revolution, just as has happened in Europe and America after the introduction of steam-engines, telegraphs and machinery in manufactures. Therefore, says Dr. Vissering, China should be prepared for the change with the gold standard. On the other hand, it is also not improbable that as a result of the war now raging in Europe there might be a thorough set-back. For one thing, it is

absolutely useless to expect an inflow of foreign capital, to any serious extent. Every country in the world has already suffered and is likely to suffer more if the war is prolonged; and it is not at all improbable that capital, trained labour and manufactures in Europe and America would be engaged for the next few decades in setting right the damage done by a few months of warfare. The whole world stands to be impoverished temporarily and the material development of mankind considerably retarded. Hence, one may discard all dreams of China following the course of the European countries in currency. For the moment the most important point of consideration is a reform that would suit present conditions, irrespective of what might happen in the far distant future. It is also unwise to disturb local conditions severely, to favour a gold standard which is neither advisable nor known to be possible.

The Second Step.

Hence the scheme best adapted to the needs of the present situation is the retention of the silver standard, with the copper cash as the basis and the silver tael as the unit or the standard. I have already shown that for centuries the Chinese have been prepared to accept copper coins as tokens. But the people have always valued every new silver coin only for the amount of the metal it contained. Therefore, they have stuck to the weight in practically every transaction of trade. In spite of the fact that numerous foreign and indigenous coins have time and again made bids for popularity and acceptance among the Chinese, not one has been even tacitly accepted by the whole of the country for even a day.

The Tael, Unit of Standard.

When we know the reasons why no coin so far issued has proved really acceptable, it would be easy to formulate a scheme that would be readily acceptable to the country. The several kinds of foreign and Chinese dollars have all been based on the so-called popularity of the Mexican dollar in the ports. The syllogism was like this: the Mexican dollar was accepted in the ports; if there was a sufficient number of them they would be accepted also in the interior; the Government could easily solve the difficulty by issuing coins similar to the Mexican in every respect, except the inscription. It was believed that by these means the country could have a coin which it liked, and the Government could make a profit which otherwise went to the Mexican mints. That such a reasoning was unsound is shown by the fact that the Chinese dollars have not been accepted, even as much as the Mexican dollar. The Chinese dollar did not find acceptance in the ports, because even when it had exactly the same weight and fineness it was a newcomer in the field. The Chinese dollar did not find acceptance in the country because no coin, not even the Mexican dollar, was even accepted freely in the country. This fact is evident by the custom of the trade, which has persistently kept all accounts in taels, and when any transport of money became necessary it was always in the shape of sycee. I think it would save unncessary efforts if the Government gave up all ideas of issuing new dollars. As a matter of fact several new kinds of dollars have been introduced from one or other of the mints making a bid for

acceptance; and not one of them, especially during recent years, has been even partially accepted by the trade. The fact that even when the Government presented its accounts in dollars for three successive years after the formation of the Republic, it did not induce the trade or the people to respond and follow the model of the Government should be proof sufficient that the dollar is absolutely unsuited to China. It may be due to prejudice and idiosyncracy of the people; but there is no use in ignoring it.

Control of Minting.

An important point which ought to be noted with regard to the reluctance of China to accept any silver coin is the belief that coinage always implies a loss in the purity of silver. Such a fear has been due to the enormous alloy which was found in the coins issued out of the Chinese mints. It is admitted on all hands that no coin could have the purity or fineness of the best sycee; but people would not have noticed the difference in purity and fineness but for the desire on the part of the provincial officials to make undue profit on coinage. In view of the popularity and the large measure of success which attended the issue of the copper coins and subsidiary silver pieces, the authorities were led to believe that they had only to issue dollars in order that they might be accepted. As a matter of fact, the people drew a line between the copper and subsidiary silver coins, which they were more or less inclined to consider as mere mediums of exchange, and the big silver coin which was proclaimed to be the standard. Even copper and small silver pieces circulated at vastly depreciated values.

A mistake which militated against any measure of success in currency reform was the fact of the Central Government allowing the provincial authorities to have the entire control of mintage. Although the Central Government was issuing regulations from time to time and was supposed to be exercising some sort of control over coinage it is a notorious fact that the mints were used by the provincial authorities as means of raising revenue, which they badly needed. Thus, it came about that, while there was no central authority guiding the issue of coins, there was no means of putting the coins minted into circulation in the proper manner. This function of putting money or coins into circulation is scrupulously controlled by the central authority in every country in the world. As a matter of fact a district or a province can never adequately do it, even when there is no such large territory as that of China to be covered.

For any new coin to attain a partial measure of success in circulation it should at least be a money of account in particular places or in some important branch of trade. It is well known that none of the coins issued in this country have ever been accepted as the coin of one single city; as for trade in China no coin has ever been recognized by it—the measure of value being the tael which is a pure weight, varying with different places. The mistake made by the Chinese authorities arose out of the fact that the Mexican dollar was the money of account in the retail trade, especially in the foreign ports.

Bases of the Standard.

Therefore, in order that currency reform might prove successful, the following points

should be kept in mind:—That on no account, for the present, would the Chinese admit silver to have a value above or below its intrinsic worth; that the standard and the unit coins proposed should conform to existing practices and should be already familiar to the people; that in order that the proposed standard may be introduced easily it is necessary that it should already be a money of account of the Government or some important branch of business; that the coinage should be exclusively controlled by the Central Government and that proper means should be available for the introduction of the reform; and lastly, that acceptance of the new standard or unit as money of account should be enforced in every part of China simultaneously with the issue of coins.

The Possible Standards.

The question to decide next is: What is the standard, satisfying the conditions that I have already enumerated? The only three monies of account in China that can claim to be accepted as the standard are the Ku'ping tael, the Haikwan tael, and the Shanghai tael. The Ku'ping tael has been the money of the treasury in China for over 200 years; but recently, or ever since the Government finance began to get chaotic, it has been dethroned and the dollar placed in its stead; and the acceptance of the dollar by the Chinese is out of the range of practical politics. Just now the Ku'ping tael is in a maze of confusion, and it is not worth while to take into consideration the claims of the Ku'ping tael in view of the changes that have taken place recently with

reference to the finances of the Government. The Haikwan tael is the money of the Customs, and has been so, ever since the establishment of the Maritime Customs. But the objection on the part of the Chinese is that it is an essentially foreign invention and that, in spite of its having been in existence for fifty years, it has never been accepted in business or by the Government. Moreover, if the Haikwan tael is accepted as the standard, the coin would be unwieldy, as its value is one-third more than that of the Shanghai tael; but that, of course, should not be considered a serious objection, as it is quite unnecessary that the standard coins should circulate freely. In Japan there are only fifty-sen pieces and no yen pieces; it is quite possible to have half a tael coins alone circulating in China. But the chances of its acceptance by the trade and by the banks are so few and so remote and so fraught with needless dislocation that its success is problematical. We now turn to the Shanghai tael; it seems to be in every way suited to be the standard of value for the country. Shanghai does more than a third of the trade of the whole country; it is the money centre, both from the foreign and Chinese points of view; and prices, and practically all markets in China are controlled from Shanghai. Even when the Chinese Government borrows or pays money, it is the Shanghai banks that pay the money to and receive money from, the Government. The stock of silver in the country is kept in Shanghai, and any excess of money in other parts of the country always finds its way to Shanghai—Shanghai for the past fifty years has been the distributing centre of trade and all money for the whole country, including the capital.

The money of account in Shanghai is the Shanghai tael, which is the currency of the foreign and native banks and all business. Hence, what better standard could China adopt than the money of account of this money centre? Apart from this, practically every part of the country except possibly the places in the two Kwangs and Yunnan, is acquainted with the Shanghai tael in the regular course of business. Therefore, no other standard has a better claim for acceptance or a better chance of success than the Shanghai tael.

The Shanghai Tael, the best Standard.

It would seem, therefore, that so far as regulation of internal currency is concerned the adoption of the Shanghai tael as the standard should prove the best possible solution of the present difficulty. But if any change contemplated does not also pay sufficient consideration to the exigencies of national foreign indebtedness and possible variations in the value of silver, it is not at all improbable that we should be confronted again with further difficulties. If attainable the effect of currency reform should not only include uniformity within the country but also the following benefits to the country: first, the augmentation of foreign trade by bringing about a steadiness in prices and exchange; second, reduction in payments on account of foreign loans by helping to keep the gold value of silver as high as is reasonably possible; and, third, maintenance of the silver value of gold at a fairly reasonable ratio, with a range of fluctuation as narrow as possible. How far the adoption of the Shanghai tael as a standard would

achieve the desired objects is a subject worthy of serious consideration.

Advantages of the Shanghai Tael.

As to its effect on foreign trade, it may confidently be stated that any step tending towards uniformity of the standard of value would help to increase the foreign trade—irrespective of the variation in the ratio between gold and silver. To-day, as during the past fifty years, the great hindrance to a settled progress in foreign commerce has been the frequent variability of prices brought about by the variations in exchange. There is no doubt that prices and the volume of trade adjust themselves from time to time. For instance, if exchange goes up or the gold value of silver increases there is a direct impetus to the import trade, as the Chinese buyer pays less in silver for the goods than he would under other conditions. Similarly, when gold goes down or the gold value of silver decreases there is impetus to the export trade, as the Chinese seller receives more silver for the same quantity of goods than he would otherwise. But values do not go down continually, or go up continually. After all, the fundamental principle of trade is the exchange of goods for goods, as no country could do the smallest tithe of its business if it had to pay money for even a very small portion of its transactions. Therefore, what happens in China is that once there is a fairly large import trade for a while on account of high exchange, there is a swing of the pendulum in order to enable Chinese to receive some money from the sale of their produce; after a brisk export trade, the pendulum swings again in the opposite direction and the

Chinese begin to buy imports. Thus exchange between gold and silver periodically adjusts itself in the commerce of China—apart, of course, from other causes which have no small influence in the determination of the ratio of value between gold and silver. The successful acceptance of one standard for this country is more likely to bring about a steadying influence on the ratio than otherwise.

A STEADYING INFLUENCE.

How then, it may be asked, would such a steadying influence be brought about? Ever since the demonetization of silver by European countries, up to 1892, when the free coinage of silver by the Indian mints was stopped, India and China were the sole controlling factors with regard to the value of silver—although, of course, the large purchases for arts in Europe and America had also a large say in this question. The mistake is often made that these countries did not have such an influence as is claimed for them, as their annual purchases were not a very large proportion of the output; it is due to the fact of people not reckoning upon the accumulated national wealth of these countries, which has remained, and does still remain, in silver. Since the adoption of the gold exchange standard by India, China became the only important country which has had any permanent say in the regulation of the relative values. This is not done by actual silver purchases, and is effected mainly through the medium of trade. Every penny worth of exports has to be paid for in silver in China or, otherwise, the accounts have to be adjusted in silver. Naturally the buying countries, which are Europe and America, have to convert their gold money into silver before they settle

accounts. There is thus created a demand for silver, without any reference to the actual output of the silver mines of the world. But conditions have been such in China that she has always owed more than she received; consequently the adjustment of accounts always left a balance in favour of the gold countries. The result has been a gradual depreciation in the value of silver—although, of course, it is necessary to guard against any assumption that the trade situation in China was the only cause of the steady fall in the value of silver.

Now, it is a point worthy of inquiry as to how the adoption of a uniform currency in silver will help. The efforts of the Chinese ought to be directed towards the improvement of the sale of their produce. Such efforts would be successful only if there is stability of prices in this country, as is general in other parts of the world. Various currencies have been responsible for the fluctuating values, which have remained the bane of trade in China. A uniform currency would steady prices, and help trade in exports. The more the trade in exports and the more the balance of trade grows to be favourable to China, the higher will be the price of silver. Of course, there is a possible limit both to exports and to the rise in silver. At a very early stage, the probability is all in favour of the trade adopting a mean which would bring about an equilibrium in the trade. Thus the effect of the proposed change would be not only to increase the level of silver values but also to keep it fairly steady.

Effect on Silver Production.

So far I have not taken into consideration the production of silver and the effects of

demand or want of demand on its value. Production will follow demand because unlike gold, whose increased or decreased production makes its influence felt only indirectly, the effect of increased or decreased silver production is directly felt in the fall or rise in its price. Except where silver is a by-product in certain mines, there is a cost below which it would not be possible to produce silver. Moreover, silver is more a commodity, like wheat or corn, than gold, which is taken up, in any quantity, immediately it leaves the mines. Therefore, it is a safe assumption that the output of the mines would entirely be controlled by demand. There is demand for silver from the Governments for coinage and for arts. To-day, the greater part of the silver production is consumed in the arts and except during years of exceptional prosperity or unparalleled misery, as on the occasion of the present war, the offtake of silver for the arts is more or less easily gauged. During recent years there has been a steady rise in the quantity of silver taken for this purpose. The other source of demand is rather an uncertain quantity, although, however, recent experience has shown that a fair average may be struck by taking into calculation a number of years. Nevertheless the absorbtion for whatever purpose of a large quantity by a particular country at a certain period leads to a temporary rise in values, as in the case of the Indian offtakes during 1906/7 and 1912/13. Similarly, the disappointment caused by the Chinese not buying during 1913 and India not buying as much as silver holders thought she would have to, led to a large depreciation in values. China, however, has always been an uncertain quantity in the silver market, because few

could foretell with certainty the course of her trade. Once she has a fixed currency, and a fairly correct estimate of the volume of trade which would be possible when the currency is less unstable, she would no longer be an uncertain quantity. The price of silver would, therefore, be steadier and at a level higher than has been the case during recent years.

Effect on China's Indebtedness.

The last point for consideration is the effect on the national indebtedness. It is a truism that the indebtedness of China to foreign countries is fairly heavy and the uncertainty of exchange makes any budget providing for interest payments extremely difficult. One effect of the adoption of the Shanghai tael will be that the Chinese Government will know how much it will have to pay month after month. As the general effect of the reform would be towards the increase of the gold value of silver, the total of payments to be made by China in silver would be reduced within a short interval after the adoption of the reform.

I believe I have dealt fully with the effect of the proposed change both on internal trade and currency as also on the international trade and China's obligations. How to bring about this reform with as little dislocation as possible is now the question; both Government and private banking in this country would have to play an important part in the carrying out of this reform; and as the banks themselves have to be reformed in order to be able to do themselves or the country any good, we now have to digress, and discuss the subject of banking reform in this country.

CHAPTER XI.

BANKING REFORM

Although I have endeavoured to separate currency and banking as much as possible and to deal with each subject on its own merits, it is not humanly possible to dissociate one from the other. The channel through which currency flows is trade, which includes practically every transaction between human beings in any part of the world. Banking and credit are indispensable elements of trade in any part of the world, however elementary they may be. It would be mere waste of space to go into the history of the development and progress of banks and banking; I have already given a brief history of banking as known in China from the earliest times up to date. The position to-day is, that, however rudimentary banking may be in this country, sales and purchases have to be financed by the banks. Although there may be no credit in the real sense of the word in this country; there is still means by which immediate payments for purchases or money in silver for sales are not altogether necessary for the carrying on of business. I have also shown how the system of granting drafts and bills of exchange has developed, so much so that the comparatively large volume of trade is being carried on with as little use of money as possible. I want to guard my readers against any inference that the system of internal trade in China by means of native orders and drafts, is any where near as

economical in the use of money as the system of trade carried on with the aid of the banks in the United Kingdom. Nevertheless, the rudiments of a machinery for minimising the use of money has been existent in this country for at least a century. How to develop or modify the existing system in order that the best results may be attained is certainly an important question.

Purpose of Banks.

It is not to be understood, of course, that the purpose of banks is just to minimise the use of money; the real object of banks is to facilitate trade or exchange of commodities. Experience has shown that the more advanced the system of banking more goods change hands without actual use of money. The result is due primarily to the fact that the quantity of money available in the world has always been a very small part of the total value of trade; and money again is only an artificial standard for measuring the value of commodities. The moment the standard no longer acts as a measure then it loses its value as money; for instance, the possession of any amount of gold is of no use if that gold has no purchasing value. The more the ability to procure the desired goods the greater the value of money. Just as commodities have a measure by means of which they could be appraised and exchanged, so money has a measure by which it could be appraised and exchanged. The measure of commodities for instance, as bushels for wheat, bales for cotton, grains or ounces for silver and gold, need not necessarily be the same in all countries; but for the sake of

convenience and national and international exchange, attempts have been made periodically, either to make the measures uniform or to establish a fixed ratio between the measure of one country and that of another. Similarly the measure of money is called standard and that also is not be same in all countries, although attempts are periodically made to establish a sort of fixed ratio between the standard of one country and that of another. The value of money is not only what it could procure in a certain country, but also in other parts of the world; naturally, therefore, allowing for necessities of local conditions, the differences are as much minimised as possible.

Banks Introduce Currency.

Exactly as in the case of any commodities or manufactured articles, money has to be put into circulation through some medium or other. The medium by which money is sent out by the government to the public and received from the public by the government, is the bank. When society was not as developed as it is to-day, and even under some types of government, the government itself performed the function of banking. So long as the people were self-contained and had no commercial or other intercourse with their neighbours money had very little to do; and what little it did was usually done through the Government. But when commerce expanded and when there was an interchange of commodities between two or three places, money had to do much more; even then one place usually exchanged the commodities it produced with those produced in a neighbouring place; only when the limit of exchangeable commodities was reached and when one

place desired more of the commodities for which it had no goods to give in return, the use of money became necessary. When this process was repeated several times and when the volume of business expanded then the number of merchants in one place liked to have a guarantor or a man who had no direct interest in the business of any one of the different individuals. Each place had its own guarantor; and instead of the individual traders then settling accounts with each other they settled it through the guarantor. By this process not only was business simplified, but scope was available for the widening of each individual business.

The function of the guarantor was not only that of bringing about economy in the use of money and saving time and trouble, but also of enabling persons who were guaranteed to purchase goods although they had nothing in their possession; thus the use of capital was obtained without the person having to pay money for it or to transfer any article of value in exchange for it beforehand. A further step was that all persons left their balances in the hands of the guarantor and saved themselves the trouble of paying out or receiving cash, on the condition that the guarantor undertook to repay on demand to each person any balance that might have been standing to his credit. When such a stage was reached a guarantor became for all practical purposes a bank, which facilitated trade by an expansion of a system of credit.

Apart from the original functions of the guarantor the advantages of banking to trade are many. When a bank is sufficiently well established, so that many customers leave their money in its custody, the bank uses

the money, by making loans and advances; but is not limited again to the amount of capital with which it commenced business and the total of its deposits. As a matter of fact it makes loans and advances to any extent, only subject to the condition that it shall be able to meet all claims against it at the appointed periods. Some capital is concentrated in the hands of the banks; the banks wish to utilize it and those who wish to take advantage of capital pay for it. Further, the banks, in addition to their other functions, serve as clearing houses for their customers, whose accounts are set off against each other without money having to pass from hand to hand with each transaction.

This is, of course, an ideal statement of the functions of the bank. But local or political conditions may affect the position in such manner as to make the bank err by either guaranteeing too much credit or restricting it too much. During the years between 1900 and 1910 we have had examples in China, before the revolution, of banks guaranteeing credit recklessly; after the establishment of the Republic and even up to date the banks have been over-cautious in the guaranteeing of credit.

But there is also another function of the banks which is taken for granted in countries where there is a stable and well-regulated currency. The banks are the sole mediums, in almost every part of the civilized world, through which the currency passes from any government to the people. When the banks have reached the stage of being public guarantors or institutions where people deposit their savings and whence they draw money from, it is but natural that they should form the link between the administrations

and the public in every transaction involving money. When a government issues notes or when a government issues coins, the public could certainly directly obtain whatever it wants from the treasury; but the circulation is made easy by the government dealing through the banks, or the public dealing through banks. There is naturally a very close connection between the currency and banking systems of a country. The decision to reform currency must inevitably involve the adoption of regulations controlling banking. It is hard to say which should precede the other, for the best system of currency, with unregulated banking, would be of no use to the country; similarly the best banking methods would prove of no practical use if the currency is what it is in China to-day. Therefore, the only conclusion that one could arrive at is that reformation of currency and banking should go hand in hand, or be simultaneously attended to.

Banks in China and Currency.

I have given an account of the system of banking as it prevails in China to-day, with brief references to its development since the earliest times. One who has the slightest experience of the progress of recent events in China, not to speak of the several muddles in the past, would have no hesitation in coming to the conclusion that there is a great deal in the methods of Chinese banking which needs improvement and alteration. Here, again, we have an argument in the vicious circle; banking is unsatisfactory because currency is in a state of chaos, and currency is what it is to-day because banking is far from what it ought to be. The question is:

how to improve the position of Chinese banking and make it really useful to the welfare and commerce of the country. One noteworthy feature of the position of banking in this country, as I have already stated, is that there has been no control at any time in its history by the government. This worked both ways, as for centuries past the Government has been ever inefficient so far as financial control is concerned. On many occasions, the Government has interfered with banking only when it wanted to get money cheaply, by issuing inconvertible notes without the backing of reserves. Until very recently, banks in China were absolutely innocent of taking advantage of the privilege of issuing paper money; even recently, that is, before the revolution of 1911, only quasi-Government institutions and the very worst of Chinese banks ever resorted to issuing paper money. Every time the Government resorted to paper, the public showed its lack of confidence by almost immediately depreciating the paper, in spite of threats and admonitions. Oftentimes, the principle that the state could make money in unlimited quantities by the proclamation of a law, which laid the obligation on its citizens to accept the state paper money at its full nominal value, has been proved to be fundamentally wrong. If the paper was accepted for the sake of appearances and in order to escape the punishment threatened by the Government, prices were increased to such an extent as to cover the anticipated depreciation in value. Therefore, the best of native banks in China have always fought shy of either issuing paper money themselves or of taking the paper money of the Government. As there was no proper currency, they always preferred to deal in silver and commodities

and in the process of exchange between them.

From ancient times banks in China have, in a way, performed the original purpose of the guarantor as also the saving of time, trouble and money. The Shansi banks which had been in existence since the tenth century until they disappeared in 1911 facilitated the exchange of commodities between distant provinces, long before such a process was possible in Europe. They saved the trouble, risks and expenses incident on unnecessary despatch and redespatch of silver. The local native banks have not had the same scope, but they also did a great deal towards saving money. But there is an essential difference between the way in which banks in Europe have done it and the practice followed in China. In Europe the saving of money was facilitated by the growth of a system of credit; in China, as I have pointed out often, there has never been credit in the modern sense of the word; but there has always been noticeably an extraordinary amount of personal trust. Banking in China has, even to-day, not understood the meaning of mortgage, although, however, the pawnshops which seem to be one of the oldest of institutions in this country have known and appreciated the value of pledges. In business in this country there has never been anything but clean credit, while with foreign banks there is never any clean credit, except in the rarest of cases. Another point worthy of note is that, even to-day, banking in China is not a public institution in the real sense of the word. Native banking has been, and is to-day, entirely a mechanism for the furtherance of trade. Unlike the case with foreign banking, the public have very little to do with the

native banks; they do not deposit their funds in, nor do they draw upon the banks; there is no system of cheques, as is known in foreign banking; and the general body of the people is entirely unconcerned as to what becomes of native banks. These institutions obtain their deposits, only from the Government and from the merchants; and lend out money only to dealers. They are, as is well known, proprietary institutions, not understanding properly the meaning of public credit. Naturally unlike well regulated European banks, they are dependent on a few traders and thus get themselves drawn into the vortex of questionable transactions. As a consequence, it is rather difficult to conduct average native banks on sound banking lines, not because the Chinese are inept or dishonest, but because no institution can do the ordinary business transactions and be a bank at one and the same time. The native banks grant loans and advances on clean credit; but they do not always understand properly the necessity of meeting immediately any demand made upon them by their depositors. The genesis of the trouble is that clean credit is not compatible with perfect security; and the native banks at present have practically no means of doing business except by means of clean credit, which system has been prevalent in this country for centuries.

So far as acting as the medium of the circulation of money between the Government and the public is concerned, banks in China have done practically nothing, simply because they were not called upon to do so. The Government had no money to put into circulation, except paper, which depreciated as quickly as possible. The banks were, for some reason or other, never approached seriously to put paper money into

circulation; possibly the Government was aware of the fact that they could do very little in that direction. Whenever they had occasion to put out paper during recent years the Government created institutions like the Provincial banks; but the advantage these banks have had in the handling of Government money, however depreciated it might have been, was nullified by the fact of the trade keeping away from them. The regular native banks and the well established merchants never recognized even the coins of the Government. They only received bar silver, or silver in the shape of sycee, freely; as a matter of fact, they preferred the sycee. Whatever silver was imported into China was always melted and made into sycee, and even the sycee of one place was melted and converted into the sycee of another as soon as it had to become the reserve of the banks in the latter place.

Banks must be Public Institutions.

The question before the Government and Chinese financiers to-day is how to make the banks really public institutions. So long as the best of the native banks continue to be proprietary and refrain from issuing paper money, the Government has no right to interfere in their managements. In passing, I might as well state that ever since the revolution of 1911 the question of unrestricted issue of bank-notes, without adequate reserves, has solved itself; because, practically all the banks that issued these notes are not in existence to-day. Strange as it may seem, there is not the least vestige of the large number of notes that were once in circulation and that proved uncashable during the crisis of 1911. To-day the difficulty in connection

with paper money is entirely due to the issues of the Central and Provincial Governments—the present Central Government, however, is not really responsible for the issues made in its name during the tenure of Sun Yat-sen as President at Nanking. Even in this instance, efforts have been made during the present year to cancel as much of the issues as possible, with the limited resources of the Government; and most of the issues made by the provincial governments were forced upon the people. The latter were willing to cash the paper they had for even 25 per cent. of its face value; consequently several provinces have succeeded during 1914 in redeeming a fairly large proportion of their issues. * Such a procedure, of course, is neither moral nor just; nevertheless it has helped to simplify the position of currency and banking reform in this country.

The functions of banking being to facilitate commerce by minimizing the use of money, and to act as the connecting link between the public and the Government with regard to the circulation of money, the object of reform should be to take such steps as would help the banks to perform these functions with as much ease as possible. As far as facilitating commerce is concerned the banks in China have done their best, under the circumstances, with the unstable currency they had to depend upon. If the banks have not been able to perform this part of their function to the satisfaction of everybody, the fault lies with the unsatisfactory monetary situation. The native banks have also had to use as little

* The Government has been receiving Salt Gabelle revenues in paper in some places, and destroying the paper thus obtained.

money as possible in trade, because there was very little of it, in the right sense of the word, to use; instead they based all their operations in silver and sycee. The banks also did act as the medium between the Government and the public; unfortunately, however, they were obliged to do so with regard to the unsatisfactory issues of paper currency.

Banks and Paper Money.

Now we should start on a different basis. The important step in reform, as I have mentioned in the previous chapter, would be the adoption of the Shanghai tael as the standard with the necessary standard and subsidiary coins—copper as well as silver subsidiary coins to be tokens. Thus the banks would have a basis of money to work upon. At first the banks must endeavour to make the issue of the new standard a success; considering that the standard I have proposed is the one in which nearly half the total trade in China is done, and one in which silver stocks and the Government loans are represented, the popularizing of this standard should prove an easy task. The next step would be to minimize the use of this standard, i.e., in actual coins, because no country in the world can afford to have all the money it needs and do business solely with actual metallic currency. Under modern conditions of international trade, no country can escape issuing paper. So long as banks confine themselves to the use of actual bullion or metallic currency, no Government or constituted authority has a right in any civilized country, to seek to exercise control over them; the relation between the bank and its clients has nothing whatever

to do with the Government, except in cases when one or other of the parties infringes the law. But when banks begin to issue credits or paper money or when they use the paper issued by the Government, the latter naturally should step in to see that banking is conducted on the right principles. Under such conditions the bank becomes practically an agent of the Government; and the latter has the right to exercise authority over its agents. Apart from this, there are principles of public polity that dictate the necessity of Government control.

Government must Control Banking.

The question is: How could the Government exercise such a control? The first article of the draft of statutes of general regulations for the Central Bank of China issued in 1912 explains clearly what the object of the bank ought to be; the article stated that "under the style of the Central Bank of China a bank will be incorporated with the object of circulating properly secured bank-notes as a convenient means of circulation and of promoting the circulation of a sound metallic pecuniary medium throughout the entire Chinese territory, of effecting clearances in monetary traffic, of supplying the inhabitants of the country with a credit medium and of executing other duties in the public interest etc." This proposal of the Government has been to endeavour to exercise such control through the medium of a State Bank which is now called the Central Bank of China. It is needless to discuss the question whether the Government should have any sort of connection with any bank at all in the attempt toward the proper regulation of currency,

because it is taken for granted that even the most powerful and well-organized treasury could not perform the necessary function without the aid of a bank.

State Banks.

The question, therefore, resolves itself into one of having a state bank or a private bank to help the treasury to control and regulate adequately both currency and banking. Dr. Vissering in his able work on the banking problem has discussed this point. So far as the distinction between state bank and a private bank is concerned, I am inclined to agree with him in all his remarks. Even when a private bank has the right of issue it is not altogether private, because the very right of issue involves an obligation on the part of the Government to pay special attention and maintain strict supervision over the issue of bank-notes by the bank. Dr. Vissering also points out that the weak points of the state bank are that in periods of tension it so easily loses the confidence of the public; that it is not only completely dependent on the state, but is even entirely made use of, in the interest of the Government, or even of a single political party, against the interests of many others; that it has bureaucratic views instead of sane commercial methods, in consequence of which the bank is estranged from actual economic life, and may even act in conflict with it. Without going into unnecessary details, it may readily be accepted that a bank of issue or private concern more or less under the control of the state has certainly proved to be better than a state bank. History has shown in Spain and Russia that the government's central bank was no help

to keep up the value of Government paper money. Again, as governments are too prone to make issues of money through a state bank when they are in need, without paying sufficient attention to economic conditions, government paper money has never been received with the same confidence as the money of the banks of issue. In France during the revolution, in America during the Civil War, in Austria, Russia and Italy, government paper money has depreciated badly at one time or other. So late as 1911 paper money of the Republic of Nicaragua was worth only 5 per cent. of its face value; the Central and South American States generally all suffer from depreciated currency on account of the state bank being used by the governments in defiance of the economic conditions.

Quasi-Government Banks.

The central banks of England, France and Germany, not to speak of smaller institutions, have all been quasi-Government institutions. Even as late as 1854 the banks of Spain, Portugual, England, Sweden, Denmark, Russia and Austria became practically insolvent, in consequence of the credit they granted or were obliged to grant to the state. Latterly, of course, the banks have adopted the principle of as far as possible not giving a blank credit to any one, not even the state. The banks became more and more independent of the Government, in spite of the fact that they were the banks of issue and thus gained financial strength. For instance in 1870/71, the Bank of France was able to assist the Government by advances when the Government was absolutely paralyzed,

and M. Theirs stated: "The bank saved us because it was not a bank of state." In the European war of 1914 the issuing banks have played a great part in allaying the panic; and if the banks had been institutions of state, very serious financial consequences would have resulted, even in England. While every bank in the country stopped payment of specie or bullion and the Government itself had no time to take measures against the panic, the Bank of England went on paying specie, while on the other hand it was attracting gold by putting up the bank rate. The Bank did not even avail itself of the special privilege of issue which the Government granted it in the first week of the war; as a matter of fact, the public had even more confidence in the Bank than in the Government. The same or a similar situation resulted in France and Germany, on account of the Bank of France and Reichsbank being private institutions, although they were banks of issue.

One has to chose a mean, in the case of issuing banks. In civilized countries with a big volume of foreign trade the idea of a state bank has been altogether given up; but once a state bank has been avoided, care was taken that the influence of the state on the private bank of issue should be limited to general supervision and might never degenerate to making use of its power over the bank towards promoting unsound finance.

Privilege of Issuing Notes.

Two kinds of money are in circulation in modern civilized countries; one is metallic money, the privilege of issue of which rests entirely with the Government; and the other,

the paper money based on metallic reserve. There is no unanimity on the point as who should have the privilege of issuing the latter currency. In ancient times in China, the Government had the sole monopoly; in modern times, in India and in all South and Central American States, Governments have the privilege. In India, for instance, an adequate reserve is always maintained, both in gold and securities, and therefore the value does not depreciate; besides Indian paper currency is convertible. In the South American States, like Brazil and the Argentine, there are no adequate reserves for the paper in circulation, and most of the money is inconvertible; consequently, exchange is a great problem, even although these countries have adopted the gold standard. In England, the privilege of issuing paper rests altogether with the Bank of England, which is not a state institution; in the crisis arising out of this war the bank issued treasury notes besides Bank of England notes, but only as a temporary expedient. In Scotland several banks have the right of issue, although the Royal Bank of Scotland monopolizes most of the Scottish issues. While at present only the Bank of England issues notes in England, only sixty years ago 279 concerns issued bank-notes. Before 1875 there were thirty-two institutions issuing bank-notes in Germany; to-day besides the Reichsbank there are only the Saxon, Wurtemburg and Bavarian banks issuing notes. In Italy the issuing banks have been reduced from six to three. In Switzerland from thirty-two to one; in Belgium, in the Netherlands and France, there is a single issuing bank in each country. Japan has followed the example of France, in having a single issuing bank. The only serious exception

to the general rule was the United States; in 1913 there were 7,525 national banks issuing bank-notes; but by the Federal Reserve Act * the number of issuing banks has been reduced to eight. In the ports in China, in Indo-China and Hongkong, all the foreign banks issue bank-notes, under more or less elastic regulations. For instance, in Shanghai there is no control at all, although there is no danger of the banks transgressing the proper limits. * *

WHO SHOULD ISSUE PAPER.

The questions which China has to decide in connection with banking reform are: first, whether the Government should have the exclusive right of issuing paper money as is the case in India or whether the right should be given to a bank; second, if the privilege of issuing notes is granted to a bank, whether it should be a private bank or a purely state institution. Incidentally, it is also an important question to decide whether there should be one central bank of issue or several banks controlling the issue, as in the United States. The first point is easily decided; as a rule, even in the most advanced countries, the privilege of issuing paper money is not a boon to the people, when it is a monopoly of the Government. In India, of course, the system is a success, mainly because India has at her back the whole resources of the British Empire; and, secondly, there are proper means of maintaining and controlling the reserves. In China, on

* The Federal Reserve Act came into force in the United States in September, 1914.

* * The Chartered and Hongkong and Shanghai Banks can, by charter, issue only a certain total, irrespective of the place of issue.

the other hand, the Government has neither the capacity nor the means to build up the reserves, and China has no other country to count upon in case of difficulty. Besides, the experience in the past with regard to paper money in China should be a great deterrent to putting this power once again into the hands of the Government. Therefore, there is no other alternative but that the right of issue of paper money should rest entirely with banks. Now, the same objections which apply to the treasury would also apply to the state bank, because any institution under complete control of the treasury is even more dangerous than the treasury itself. The Bank of Spain should be a standing example of the possibility of the disastrous consequences brought about by the undue pressure of the state on the bank of issue. As M. Leroy Beaulieu states: "A country soon recovers from the effect of the errors committed by the private banks, for excessive issue on their part, if it occurs, cannot sensibly affect the rate of exchange for long. On the other hand, the errors of state banks or those closely connected with the state, committed on the instigation, under the pressure and for the requirements, of the government, have a far greater and more lasting influence. They throw the country into complete disorder for many years in succession." Consequently we are thrown back on private banks, with a sort of Government control, so that as banks of issue they may satisfactorily perform their functions; (1) to provide a medium of circulation of constant value in the handy form of bank-notes or book credits which are easily transferrable, and (2) to place its funds which are mainly drawn from the national wealth at the disposal, as far as possible, of the

community by the advances in form of discount of bills and loans of money on the security of stocks and merchandise. Whether there should be one such institution for all China or whether there should be several, as in India or the United States, is a point of great importance which needs detailed consideration.

It is essential that there should be no misapprehension about the fact that, whether there is one bank of issue or many, the Government is ultimately responsible for the issue and regulation of all kinds of currency. As the Government could not do banking itself, or as it is not advisable, in the interests of the public, that the Government should do banking, the question is: under what system the Government's supervision could be insured, while the public would also be benefited? The progress and functions of banking are dependent upon the prosperity of the people—essentially the prosperity of trade. Commerce involves, so far as banking is concerned, discounting bills, making loans, advances, and all the paraphernalia of the banking business. The Government could not do all these things and no one institution, which is connected with the Government in any manner, can do all the business available in the country. For instance, in England the great majority of business is done by banks other than the Bank of England; as a matter of fact, there are individual banks bigger than the Bank of England; but the Bank is the bulwark of all business, not only in the country, but in the Empire. The Bank of France, the Reichsbank and the Bank of Japan occupy practically similar positions. Being the mediums through which the Government deals with public business, their operations are to a certain

extent even restricted; and profits to their shareholders are not as much as in the case of some other very sound banks.

One Bank or Many?

There is no better plan to arrive at a decision on this point than to compare conditions in China with those of other countries. A noteworthy feature in countries which have a central quasi-Governmental bank —the progressive countries having eschewed state banks — is that such countries are compact. The area within which the bank operates or controls business is very limited and there are no long distances, or days of travel necessary, to reach from one place to another. An exception must be noted only in the case of Russia; but trade is so elementary and Government so patriarchal in that country that a comparison with Russia is of no practical utility. I assume, in dealing with reform for China, that this country is on the eve of a marked industrial progress; also, however chequered, the administration of the country is to be more on the lines of England, France or America than Russia. Countries having a central bank are more or less manufacturing countries that have grown into capitalist countries; they have more to receive than to pay out. A third point is that when the central bank was thoroughly organized they had no different currencies in the country to regulate; and even in Germany where the Central Bank was established comparatively recently, it was done only after the unification of the country and currency was completed. Let us consider conditions in China. There are vast distances that have to be traversed, and it takes several days,

if not weeks, to go from one part of the country to another, owing to want of proper communications. China is a debtor nation, and up to date it is a hard task for her to meet interest on her liabilities. There still remain currencies of various denominations to be systematized, before any central banking organization could direct the affairs of the whole country, even if that should be possible.

Comparison with the United States.

But not all countries have central banks. Siam has no central bank, the treasury regulating currency with the aid of the branches of foreign banks in Bangkok. The United States and India ought to be good parallels for China for several reasons. In the case of the United States there is similarity with regard to the distances to be traversed. In spite of all the great development in the States that country is still a debtor—owing as much as $2,000,000,000 to Europe. Although the States has no chaos of currency as in China, American financiers have long complained of the plurality of banks of issue; and some proposed a central bank. The Honourable George A. Roberts, President of a Commercial National Bank of Chicago, stated before the Currency Commission that " the first argument for a central bank is that such an institution, organized into, and made a part of, our national banking system, is needed to complete the latter, and all the more needed if important new powers as to currency issues are to be conferred upon the individual banks. The defects and weakness of the national system to-day are due to the isolation of, and lack of cohesion among, the great number of scattered

units. The system of independent banks without a central organization is costly to the country in requiring an unnecessarily large gold reserve." In spite of the fact that Wall Street preferred a central bank, we know that the United States Government have, in the interest of the public, as against that of individual powerful financiers, passed the Federal Reserve Act "to provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of re-discounting commercial paper, and to establish a more effective supervision of banking in the United States." Under this law which came into force in September 1914 no less than eight and no more than twelve Federal Reserve Banks are in the course of establishment and, in due course, will undertake the issue of bank-notes.

Comparison with India.

India has also many points in common with China. The same extent of territory as also dependence upon foreign countries for manufactured goods, apart from the level of wages and prices, make India even better as a parallel to China than the United States. The currency of the country is exclusively controlled by the Government—both metallic and paper currency. Of course, there is no question as to who should issue or control metallic currency; the central bank question is only in connection with paper issues and the regulation of banking and trade. The chief difference between India and other note-using countries is that the function of note issues in India is wholly dissociated from the function of banking; the Government issues notes of various denominations, some of the notes being acceptable throughout the

country and some only exchangeable within the particular "circle" in which they are issued. The Government keeps the reserves in gold, in India and in London, silver rupees and securities. The gross circulation of paper currency improved from £18,000,000 in 1892 to £46,000,000 in 1913; for this issue, £25,500,000 was kept as reserve in gold, £11,000,000 in rupees and £9,500,000 in securities, in the year ended March 31, 1913. Any further detail with regard to the paper currency in India is not necessary for the present. But some salient points are worth noting. The Government maintains an independent treasury system in India as in the United States. There is, of course, difference of opinion as to the advantages or disadvantages of this system in which the Government has no banker. The volume of currency cannot be temporarily expanded to meet the seasonal demands of trade by some credit device, within the country itself. Although the condition is similar in the United States, the large use made of the cheque system in the latter country helps to make the currency there much more elastic. In India, resort has to be made to council bills on London or sovereigns have to be brought in. There is no credit money in India to any large extent; even this is not considered altogether an evil, because prevalence of too much of credit money is not always likely to conduce to sane commerce. The Government of India issues the notes and the Presidency Banks perform the function of the central banks of the different localities. Although owing to various causes these banks are not in a position to place all the money that trade needs at certain seasons at the disposal of merchants, the report of the Currency Commission of 1913 has shown that

they have performed their functions quite satisfactorily. As in the case of the United States authorities, the members of the Commission have been strongly of opinion that a central bank is entirely unsuited for a large extent of territory; because supervision by any bank, however powerfully constituted, over an unwieldy area is not compatible with sound business and credit. Above all, it cannot be sufficiently emphasized that undue expansion of credit is more injurious to the State and the trade than even a want of it.

Many Banks Necessary.

As it is recognized that the treasury in China, for a long while to come, should exercise a much greater measure of control over trade and banking than is possible or necessary in advanced countries like England or France, and as such control with regard to currency has to be exercised through banks, it is evident that an unwieldy organization of the central bank for the whole country would prove of no help to the Government. I believe that China cannot do better than follow the examples of India and the United States, by having a number of institutions through which the authorities could control and regulate currency. The organization and functions of these banks would have to be evolved out of a study of the experiences of particular localities. There must, however, be a general plan to work upon; I have accordingly sketched a rough plan, which would have to be modified according to the exigencies of each particular locality. The principles that govern the relationship between the treasury and these banks, or the duties of such banks, would however, remain the same in all localities.

Chapter XII.

THE DISTRICT BANKS

Now that it is seen that a Central Bank, as proposed by Dr. Vissering, is quite unsuitable to China, it is necessary to know how the rearrangements of the banking system could be made. Dr. Vissering couples the establishment of the central bank with the adoption of a gold exchange standard; so he states that one of the services that the bank would have to render would be to maintain gold parity of the home currency in connection with the foreign rates of exchange, by supervising the conditions of the rates to and from foreign countries. Now that my proposal does not involve the adoption of the gold standard, the bank or banks would be relieved of this function; moreover, a bank which is specially connected with the state in China, should have as little to do with foreign exchange as possible. The bank would render service also by issuing, and bringing into circulation, the new coins of the country and by withdrawing the superfluous coinage in circulation; also by assisting in the withdrawal of their undesirable circulating mediums, such as Government notes, which have already heavily depreciated; finally, by the withdrawal, if possible, of all copper coins with a view to the improvement of the condition of the currency.

Purely Trade Districts.

In what manner these functions could be easily and successfully performed is the problem now before us. As I have pointed

out, already, there has really been no parallel situation in any country in the world. We cannot take examples from European countries, Japan or Java. But, we may profit by the experiences in India or the United States. The recent legislations in the United States with regard to banking and currency are very instructive to China in several ways, besides that of deciding the uselessness of a central bank for a state of such vast proportions. I believe that China can profitably follow the example of the United States by dividing the country into a number of districts, provided that the districts shall be apportioned with due regard to the convenience of trade and customary course of business, and shall not necessarily be co-terminous with any province or provinces; the districts thus created may be readjusted and new districts may, from time to time, be created. In an important city within the confines of a large district, a bank should be established and called, for example, the District Bank of a certain circle.

Co-operation of Native Banks.

I have repeated rather monotonously that any reform in this country should not only conform to old traditions but also take stock of existing institutions. All the proposals for banking reform that have been made so far are entirely oblivious of the fact that innumerable and in many cases, comparatively powerful, native banking institutions exist in every part of the country. In every locality, business is not possible without the aid of these banks and, as has been seen oftentimes, the breakdown of one or two of these banks brings about a complete deadlock in business. It is absurd to believe that any tangible reform could be

brought about, without the aid of the existing banking institutions. To co-operate with them or to take them into any scheme proposed would certainly ensure success.

Here again, the recent legislation of the United States should give us very useful help. The division of the country into several banking districts could be made by the Ministry of Finance. Every native bank within that district, that is a member of one of the guilds in the district, would ipso facto become a member of the District Bank, and subscribe proportionately to the capital of the District Bank—the total of the capital supplied by the native banks to be fixed at two-thirds of the authorized capital. The rest of the authorized capital, or the balance of one-third, should go to the Government. Of the total number of directors, two-thirds must be elected by the bankers, the Government to nominate directors in proportion to its holding.

Bank of China Unsuitable.

By recent legislation the Bank of China has been made into a sort of a central bank and elaborate rules and regulations have been made to justify such pretensions. First of all, I wish to point out that the whole arrangement, although well intentioned, is not designed to help to reform currency or banking; secondly, it takes no stock of the existing native banks, who, on their part, have little to do with the Bank of China; thirdly, no attempt has been made to reform currency and the bank can do nothing to help towards it; fourthly, it is the evident wish of the Government and the bank also that the latter should dabble in foreign exchange. I have no doubt that the present management of the Bank is very efficient and,

if it is unable to do much more, it is because the whole scheme is unsound. Therefore, it is not worth my while either to quote or critizise the regulations or the rules of the Bank of China—especially because it is as far from being a proper Central Bank as possible and it would never be one in the right sense of the word.

Foreign Banks Should not be Ignored.

The Chinese Government should not forget the fact of the existence of powerful foreign banks. For instance, Section 1 of Article 42 of the Statutes or the rules of the Central Bank of China, states: "As mentioned in Article 3 Section 2, the banks and bankers who at present possess the privilege of issuing bank-notes in China will be deprived of this privilege as from a certain date to be determined by the Government, which date shall not be earlier than half a year and not later than three years after the promulgation of the law on the subject." Although technically the notes of the foreign banks are not recognized by China, they circulate very largely even in Chinese territory; they have not obtained the the privilege of issuing notes from the Chinese Government nor could the latter take it away from them. Hence it is absurd to make a rule like that. That the foreign banks have as their aim the facilitating of trade and not maintaining the privilege of issuing bank-notes is proved by the fact that in Siam, for instance, they use the treasury notes, because they know that such notes are backed up by adequate reserves. The point I want to make clear is that, while the Government should call in the help of the existing native banks while reforming currency and banking, it should

also seek the co-operation of foreign banks; in any case any attempt to disturb the present equilibrium would do no good, especially to the Chinese.

Working of the District Banks.

The working of the District Banks should be so regulated as to bring about a maximum of efficiency with as little disturbance of existing trade conditions as possible. For this purpose, no more useful or better example could be had than that of the Presidency Banks in India. One very important distinction between the proposed District and the Indian Presidency Banks would be that while the former would have the exclusive right of note issue the latter only circulate the treasury currency notes. So far as the note system is concerned the Indian system is not ideal; further, in China, for a time at least, public institutions like the banks I propose, would enjoy more confidence than the treasury—which is known to have been almost criminally careless, with regard to the issue of paper money.

Necessary Restrictions.

The first and most important point that I would impress upon the authorities and the new banks is that on no occasion should any Chinese institution dabble in exchange, at least for the present. Two of the principal restrictions of the Presidency Banks in India are that the banks may not draw, discount, buy, or sell bills of exchange or other negotiable securities unless they are payable in India, or in Ceylon—thus cutting them off completely from dealing in sterling drafts or in any kind of foreign exchange; secondly,

that they may not borrow or receive deposits payable outside India, or maintain a foreign branch or agency for this or similar purposes—thus preventing them from raising funds in London for use in India. How important such or similar regulations are for the new Chinese banks can only be understood by those who have experience of Chinese affairs. These two restrictions are inter-related. If a bank has no branch outside China then it would be silly on its part to deal in foreign exchange. Foreign exchange is a business which needs a capital training and confidence enjoyed only by the powerful foreign banks—capacities not likely to be available in China for possibly decades to come. Moreover, exchange is not always a profitable proposition; therefore, it is best that the Chinese keep out of it. As for preventing Chinese banks from raising funds in foreign countries, no more salutary restriction could be imagined. I do not want to be misunderstood as opposing the bringing in of foreign capital; but by no means should an institution of the kind of the proposed district bank engage itself in speculative enterprises. Capital for industrial purpose may either be raised by Chinese themselves or through the exchange banks or other foreign syndicates. But when an institution has the control and regulation of currency, it should scrupulously avoid any kind of speculation.

Four other restrictions, which the District Banks might be put under, as in the case of the Presidency Banks in India, are: (1) that they may not lend for a longer period than six months, or, if possible, it would be more advantageous to restrict the period to three months; (2) that they may not lend

upon mortgage, or in any other manner upon the security of immovable property; (3) that they may not lend upon promissory notes bearing less than two independent names both well known to the management of the bank; in any case the more the bank refrain from lending on personal security the better for all; (4) that they may not lend upon goods unless the goods or the title to them are deposited with the bank as security—this purpose being best served by the bank, like the Customs, establishing a kind of bonded warehouse for the acceptation of merchandise.

District Bank, Aid to Currency.

Before proceeding further with the details of the constitution and functions of the district banks, some general observations are necessary in order to make my position clear to my readers. The essential difference between my proposal and those that have been urged so far is that while the aim of the district banks is to improve banking and bring it into line with modern developments, the object of having a central bank is to prop an artificial currency. The constitution and functions of the district banks have nothing to do whatsoever with specific proposals for currency reform; while the state bank is absolutely necessary in order to bring about the reforms proposed by Dr. Vissering. My banking proposals are connected with my currency scheme only in so far as it is best to have proper currency for any bank to do business with; while the state bank of Dr. Vissering is specially intended to help to maintain reserves, in order to make the proposed currency as stable as possible. As I have already pointed out, the principal defect

of the state bank proposal is that it ignores altogether the existing native banks, which are still powerful factors in the financial and commercial polity of this country.

Advantages of this Scheme.

Just as my currency proposal takes as a nucleus the existing cash and Shanghai tael for building up a constructive programme, so my banking proposal takes the existing native banks as the nucleus for building up a sound banking system in this country. Success in either currency or banking depends very much on the co-operation of the public. Even Dr. Vissering, who strongly advocates the formation of a central bank, expects that the existing native banks would oppose his scheme; he is quite right and, I may add, they would take every step to nullify the scheme. The existing native banks can have very little to do with the control of the central bank, especially when the latter has to do a great deal towards the regulation of the proposed gold reserve. The central bank again is bound to prove an unwieldy organization, and, in view of the large extent of territory to be covered, it is more likely to be under the full control of the Government than otherwise; any step taken, even partly, to make it independent of the state, is likely to be of no avail. My scheme obviates all such difficulties. First of all, the district banks cover a limited area and hence would not be unwieldy organizations. Secondly, the existing native banks would be the shareholders of the district banks, along with the Government; hence they have every interest in helping the institutions to succeed. Thirdly, the functions do not extend to foreign exchange or artificially

to maintain the value of reserves. Fourthly, they would be under the control of the Government, only in so far as the circulation of currency and the regulation of bank interests are concerned. The measure of independence from interference by the Government in the proposed district bank will be immensely more than in the case of a state bank. Lastly, the district bank will be the bank of banks in each locality; it will be an example to the native banks, as also the medium by which some sort of control could be exercised. This control would be altogether different to direct Government control, the reason being that such control is exercised from within, and not by an adventitious agency. As each existing bank in a locality would necessarily be a member of the district bank, any irregularity on the part of one of the members could not only be easily detected, but severely punished with impunity—a function which neither the Government nor the Bankers' Guilds have so far been able to do. The Government was able to do nothing, because it was not able to render any help to the banks and, further, it was an adventitious agency. The Bankers' Guilds in different places were loose organizations, neither consultative nor executive, with no power of any kind; naturally they were only able to pass pious resolutions in matters of importance. The district bank will combine usefulness with authority and at the same time remain autonomous.

Help to Government.

The special advantage of the district banks under my proposal is that they would act very successfuly as the collectors of taxes for the state, as also help to bring about a

centralization of administration, very necessary for the successful reformation of the Government in China. It might be averred that a central bank should do this better, such bank being an institution more under the control of the Government. Such an argument, however, ignores the existing realities of the situation. For decades, attempts at centralization, especially of finance, have been unsuccessfully made; and the Manchu dynasty fell finally by trying to exercise financial control over the provinces. Even now the Central Government has found to its cost how jealously the provinces hold to their prerogatives of taxation and finance. It goes without saying that the provincial governments would rather allow an institution over which there is some local control to hold their money, than a bank exclusively controlled from Peking. This point is very important, especially as there is no properly organized central or provincial treasury. When a bank is a receiver of taxes there is bound to be better accounting, than when the present kind of government receives the taxes. Of course, a proper treasury organization is necessary for this country, as in the case of every country in the world; when such an organization is completed, the direct banks could look exclusively after commerce, receiving only monies temporarily not required by the administration. Even during the Manchu regimé the provincial officials deposited large sums of monies with the native banks, partly for security, and partly to facilitate commerce. Such lending was promiscuous and was not undertaken on a proper business basis. Now, in putting all the monies in the district banks there would be no break of tradition and at the same time there would be greater security—the district bank

lending out the same monies to the several native banks on a proper business basis. This practice would help centralization, because the jurisdiction of the district banks would be quite different to that of the provincial administrations; the area covered by such institutions might probably be bits of two or three provinces. The provincials would also have the satisfaction of using their monies as much as possible in or near their own localities. With such organization local commerce is bound to be better regulated and improved. Neither a central bank nor a state bank could perform these functions adequately. The district bank would thus be not only the banker of the state but also the bank of banks; in other words, it would enjoy the confidence of the Government as well as of the public.

Banks of Issue.

The speciality of these banks, especially in connection with facilitating the currency, would be to act as banks of issue. The privilege of issuing bank-notes would be the mark by which this bank would be specially distinguished from the ordinary native banks. Of course, this means that the bank would require a large working capital, supplied mainly by the existing banks; it follows naturally that this bank should place also as much of capital as possible in the hands of the existing banks. It does not mean, however, that the bank would have nothing to do with the public directly; it can open deposit accounts to all, and, with certain reservations, do the usual banking business. The bank-notes, however, would be exclusively those of the district banks, the principle underlying the issues to be mainly the economising of currency. In this

connection, I should mention that Dr. Vissering is mistaken in his statement that from time immemorial it has been the custom of the Chinese banks to issue their own bank-notes and that many have eventually succeeded in placing into circulation a not inconsiderable amount of their paper as a medium of circulation. A study of the history of banking in China shows that even as late as the reign of Hien Feng all paper money was mainly issued by the Government. After the reign of Hien Feng, some of the banking institutions adopted this practice. But as I have pointed out in the chapter on "Banking in China," the main offenders have been the provincial Government banks —which were practically state banks—although a few Chinese private banks also adopted this nefarious practice. At no time in their history have sound native banks ever issued paper money; and it must be said to their credit that they always looked with disfavour on paper currencies, especially when they knew that they were not backed up by reserves. Even to-day, excepting the Bank of China and the Bank of Communications, that are state institutions for all practical purposes, very few native banks—such of them as are in treaty ports and absolutely under the control of the Chinese—issue paper money. Dr. Vissering is evidently misinformed as regards the extent of such issues at present, although I quite agree with him in the statement that issue of paper by private institutions or persons should absolutely come to an end. The question of all paper money issued by banks has solved itself during the revolution; all the trouble to-day is due to the various Government issues. These are also now being redeemed. Therefore,

the issue of paper money by the district banks at present need not be attended with great difficulties. Such issues should, however, be to the satisfaction, and consistent with the safety, of the public and the Government.

In order to formulate a plan, brief statements of the conditions in the neighbouring and analogous countries should be of great help. Hence, I will briefly refer to the paper currencies in the United States, India, Siam and Japan.

Paper Currency in India.

The original principles on which paper currency in India was established were: first, that the function of note issues should be entirely dissociated from that of banking; second, that "the amount of notes issued on Government securities should be maintained at a fixed sum, within the limit of the smallest amount which experience has proved to be necessary for the monetary transactions of the country, and that any further amount of notes should be issued on coin or bullion.*" Paper currency in India has been entirely Government issue. Up to 1910 these notes took a very minor place in the currency system of the country. It is unnecessary to go in detail into purely local questions; at first, all the notes were issued in seven different circles, corresponding roughly to the principal provinces. For a long time the notes of one circle were not usually cashable in another, and, therefore, were not readily convertible. But recently, practically all of the notes except those of very high values were universalized, i.e., the notes of one

* Secretary of State's Despatch (Sir Charles Wood, March 26, 1860).

circle were cashable in another. The average gross circulation of currency notes, or the value of all the notes issued and not yet paid off was £18,000,000 in 1892/93 and £38,000,000 in 1911/12; the net circulation, or the value of the gross circulation, less the value of the notes held by the Government in its own treasuries as also those held by the Presidency Banks, was £13,000,000 in 1892/93 and £28,000,000 in 1911/12. For these currency notes a reserve is held. A portion of the reserve is invested; the invested portion amounted to 800 lakhs in 1892, 1,000 lakhs in 1877, and 1,400 lakhs (£9,333,000), of which 400 lakhs (£2,666,000) were in English securities, in 1911. The interest from the invested portion of the reserve, less the expenses of the paper currency department, is the profit of note circulation. The balance of the reserve used to be held in silver coins up till 1898. Under the provisions of several later acts, the Government obtained power to hold the metallic portion of the reserve in gold and silver; at its discretion the metallic portion of the reserve might be held, either in England or in India. For instance, the note circulation in March 31, 1913 was £46,000,000; the reserve for this was held as follows: Rupees £11,000,000, gold in India £19,500,000; gold in London £6,000,000; securities £9,500,000, of which about £3,000,000 was invested in London. It must be noted that the increase in the circulation of notes has been of larger proportion than the increase of the invested portion of the reserve; a growing and not a diminishing portion has been kept in liquid form, because the object of the bullion reserve is not only to cash notes and legal tender on demand, but also to enable the Secretary of State to support exchange in times of depression

and maintain at par the gold value of the rupee. The note circulation varies with the seasonal demands for money; the position is unlike that in England where there is a steady circulation. As in the United States, the Government maintains an independent treasury system, which controls the circulation of notes, coins as well as reserves. Owing to the exigencies of the situation the Government have thought it wise not to allow of expedients for the temporary expansion of currency by means like those employed in England.

The underlying principle of the note issue in India is the minimizing of currency, while at the same time having a full reserve, the larger part of which to be in gold; this step became necessary in view of the fact that, while being a silver using country, India adopted a gold standard and until recently payments in gold had to be made out of India. The reserves had necessarily to be so adjusted as to be able to support exchange in times of depression. Recently, the development of trade has been such as to make the system not quite suitable to the country. Exports have increased so much, that, in spite of all the home charges, India has become more of a creditor nation; and the only manner in which she could receive the balance due to her is the import of gold, which has been very heavy during recent years. Although British bankers have viewed with alarm the drain of gold into India latterly, this import was fostered by the Government—at first the Government very seriously forcing gold into circulation. While reserves against notes were kept to the full amount of the issues, metallic reserve in gold and silver was nearly seventy per cent; and the value of notes in circulation as compared to the value of

coins in circulation is roughly in the ratio of one to three.

Paper Currency in Japan.

In Japan the regulation with regard to bank-notes is not as satisfactory as is the case in India. The first modern issue of convertible bank-notes took place under the Convertible Bank-notes Law of May 1884, which provided for the issue by the Bank of Japan of bank-notes which were convertible into silver. Upon the adoption of the gold standard in 1897 the notes became convertible into gold. The principal points of the paper currency system in Japan are, briefly, as follow: The Bank of Japan is required to hold as conversion reserve against the issue of notes gold and silver coins and bullion to the same amount as that of the notes issued; and the total value of silver coin and bullion must not exceed one-fourth of the entire conversion reserve. The Bank of Japan may also issue bank-notes to an amount not exceeding Y.120,000,000 on the security of Government loan bonds, treasury bills and other reliable securities or commercial bills. Should the condition of the market necessitate an increase of the amount of money in circulation, bank-notes may also be issued with the permission of the Ministry of Finance on the security of the Government loan bonds, treasury bills and other reliable securities or commercial bills. At the close of 1913 the amount of coins in circulation including Y. 37,348,240 of gold was Y.179,308,909; bank-notes in circulation totalled Y.426,388,708. For this issue the reserves were as follow: gold coins and bullion Y.224,365,880, public loan bonds Y.39,683,105, and other

securities Y.162,339,723. Thus the reserves were in the proportion of 52.62 per cent. specie and 47.38 per cent. securities. The noteworthy feature of the financial system in Japan is the enormous amount of paper in circulation, which is almost altogether disproportionate to the trade, or the metallic circulation. It should also be remembered that the gold reserve for Japanese issues is kept in London, and not in Japan.

Paper Currency in the United States.

Since 1873 the United States adopted the gold standard, although for a considerable time after that heavy silver purchases were being made and paid for in treasury notes. At the close of 1910 there were $1,701,198,787 of gold coins including bullion in treasury, 564,783,508 silver standard dollars, 3,494,000 treasury dollar notes, 156,546,852 subsidiary silver dollars, 346,681,016 dollars of green backs of 1862/63, and 726,855,833 dollars of national bank-notes. Before the passing of the new Federal Reserve Act, there were 7,522 national banks issuing bank-notes and these note issues were covered by the United States interest bearing bonds deposited with the treasurer. The legislation of the last Congress, passed on December 23, 1913, has changed the whole system and provided for the Federal Reserve Notes to be issued by the Federal Reserve Banks, which are being established under the new law. Section 16 of Federal Reserve Act states that "the said notes shall be the obligations of the United States and shall be receivable by all national and member banks and Federal Reserve Banks and for all taxes, customs and other public dues. They shall be redeemed in

gold on demand at the Treasury Department of the United States or in gold or lawful money at any Federal Reserve Bank. Any Federal Reserve Bank may make application to the local Federal Reserve Agent for such amount of the Federal Reserve Notes hereinbefore provided for as it may require. Such application shall be accompanied with a tender to the local Federal Reserve Agent of collateral in amount equal to the sum of the Federal Reserve notes thus applied for and issued pursuant to such application. Every Federal Reserve Bank shall maintain reserves in gold or lawful money of not less than thirty-five per centum against its deposits and reserves in gold of not less than forty per centum against its Federal Reserve notes in actual circulation, and not offset by gold or lawful money deposited with the Federal Reserve agent. The Federal Reserve Board shall require each Federal Reserve Bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal Reserve notes issued by such bank, but in no event less than five per centum; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinbefore required." Thus the United States is bringing down the number of banks that issue paper money to eight or twelve; and in view of the several unfortunate experiences culminating in the crisis of 1907, the Government has wisely provided for a sufficient margin of metallic reserve for the notes.

Paper Currency in Siam.

In Siam there was no purely local note issue; the branches of the foreign banks

issued bank-notes up to 1902. The Government then began issuing currency notes and thus gradually drove bank-notes out of circulation. About 18,000,000 ticals worth of notes are in circulation in Siam, these notes being issued by the Treasury in the capital and the provinces; the foreign banks circulate these notes. The reserve for them is kept exclusively in London; the sum necessary was obtained out of the loan of 1907, a part of which was also devoted for railway construction.

Authority to Issue Paper.

I have given a brief exposition of the situation with regard to paper money in the above four countries in order that my plan for China might be better understood. As regards the authority to issue notes, China must follow all these countries in arranging that the Government grant the necessary sanction to the district banks to issue paper money. In China, under the present state of affairs, it is useless for the Government to be the direct issuer of paper money. The experiences of the people of this country are not helpful to insure confidence in Government paper money. So far as the procedure with regard to the issue of paper money is concerned, China might profitably work very nearly on the lines of the new Federal Reserve Act of the United States. Beyond that, however, I believe that stricter regulations and larger metallic reserves are absolutely necessary, if the new paper issue is to succeed.

The proportion of metallic reserve must be at least as much as that in India; only a smaller proportion might be kept in gold —at the outset it must be all in silver— and the larger part of the reserve might be

kept in China, instead of in foreign countries. The reason why gold should be kept as a reserve, I will explain later on.

Full Metallic Reserves.

At the outset, however, it is safer to begin with a full proportion of metallic reserve in order to bring about a thorough confidence. Such a procedure is, of course, not economical; but it is necessary to evolve a system by which paper money would be accepted throughout the country at its full face value. No better method of popularizing paper could be devised than that of issuing notes to the value of the unit of currency—the Shanghai tael. The banks might issue also notes of multiples of the unit; but their endeavours must be mainly devoted to popularizing notes of the unit value. Of course, it is understood that until they could arrange for at least 40 per cent. of the issues to be covered by coin reserves—the rest to be in bullion—no attempt should be made to issue paper. The railways, large companies, Customs, bankers, merchants as well as foreign banks, might be asked to help to take these notes freely. That the foreign banks would help, if my proposal is followed, there is no doubt; once the Government departments, the railways and foreign banks take the notes at their full face value the confidence of the public would be complete.

How Reserves Should be Kept.

But there is another difficulty, peculiar to China, in connection with the issue of paper money. In practically all the countries I have referred to, the note circulation was

not attempted until there was a fairly large circulation of the unit coins of the country. In Siam, Japan or India the unit coins have remained the same for hundreds of years; the only adjustments that had to be made were in connection with the gold values of the units. In this country, on the other hand, circumstances necessitate the issue of paper money simultaneously with the adoption of the new unit—which, however, is the unit of at least a third of the volume of foreign trade in this country. The object of reform is to bring about the much-needed stability within as short a period as possible, and with as little expenditure as possible. Depending entirely on the circulation of metallic money or waiting until metallic money has a sufficiently large circulation, would mean not only a long waiting, but large expenditure. Several millions of pounds worth of silver would have to be bought at once, thus driving up the price of the white metal, and increasing the cost of reform. I do not agree with Dr. Vissering in his proposal, that the withdrawal of old coins and sycee should be the last step, or that the existing currency should last longer than could be helped. From the start, arrangements should be made so that, deducting for a small cost of coinage, silver coins in the country might be converted in direct proportion to their weight and fineness into the standard or Shanghai tael, the receiver having the option to take the whole or any part of it in silver or in paper. The issuing bank, which would receive the coins from the mints in exchange for silver, should see that for every 10 taels of notes that it issues, four-tenths is kept in coins and that the other six-tenths in bullion. This bullion need not necessarily be

in the vaults of the bank, but at least 3/10ths, or one half of it should be in the bank, while the balance may be certificates of the treasury for the amounts kept on Government account in China or out of China, either in gold or silver. The advantage of this arrangement would be that, while in times of panic there would be sufficient to meet demands, the Government might not only save a great deal of the cost of coinage but also regulate exchange with regard to payments due to foreign countries on loan accounts. For the public there is the full assurance that, so far as paper money is concerned, the Government cannot forcibly take any step that would prevent their obtaining metallic money or bullion, whenever they may need it.

While criticizing Dr. Vissering's scheme I stated that an effective reform should eschew paper money as much as possible; hence, it may be pointed out that I am not consistent. My project is, however, not on the same lines as that proposed by the learned doctor. He began with an inconvertible note issue and while proposing the issue of notes even after the token coins are put into circulation, he would have the seigniorage profit as the reserve. At no time in the history of currency has seigniorage profit been sufficient to form a reserve against notes. The essential feature of a reform scheme should be to induce people to have faith in the coins or paper issues. It is hardly possible that Dr. Vissering's scheme could bring that about. The very start is false; and the issue of inconvertible notes, even before the issue of coins, would prove sufficient to make the Chinese people distrust the scheme. For ages, they have understood and appreciated the value of metal; and any other

currency was always forced upon them. When it is understood that even in such an advanced country as England, whose volume of trade is the largest of any single country known in history, the daily transactions of life are conducted solely through the medium of coinage—the smallest paper money available being £5—one need not wonder at the Chinese being anxious to stick to metallic money. The issue of £1 and 10s. currency notes in England on account of the situation created by the war of 1914 was almost a revolution in currency; people accepted these notes, in spite of the fact that the Government guaranteed it and the Bank of England had sufficient reserve to pay the whole of it in gold, more out of patriotism than any great faith in the change.

Consequently it would be futile to suggest any course which leaves out of consideration the necessity for metallic reserve. Paper should be issued for the sole purpose of economizing metal and saving on coinage expenses. Therefore, the Government or the banks delegated by the Government to issue and control the paper currency, should have the full amount of reserve in metal or any other shape which would permit of immediate conversion into metallic currency. There should be no more revival of inconvertible notes, if currency reform should succeed; the creation of unsecured paper money would become a dangerous expedient, as it has on several occasions in the past, if it were allowed to develop into inflation. The moment that people understand that there is the full amount of reserve to meet all demands for conversion of paper money, they would prefer to leave coin and bullion in the bank, rather than have to cart heavy weights of

metal for their daily trade transactions. The accumulation of metal in the vaults of the banks would also make its effect felt on the economic life of the people; it would engender a confidence which would prove a stimulus to production and trade. On the other hand, inconvertible paper, whether issued by the Government or a bank, would always have the taint of suspicion attached to it; for, having nothing to back it up, one is uncertain at what date it would lose its value and refuse to be converted—at all.

Coinage must be Simultaneous.

My proposal, in brief, is that concomitant with the organization of the district banks a sufficient number of the unit coins should be minted. These coins should be that part of the capital provided by the Government for the formation of the district banks. As the Government has, under my scheme, to supply a third of the capital the amount of coin supplied to each one of the banks would depend on the capital of the district banks in the several places. It is evident that all the district banks need not have the same amount of capital. For instance, the bank of Kaifeng need not have the same amount of capital as that of the Chêngtu circle; the latter bank would have to provide for the trade of 70,000,000 people, while the former would have to cater for 25,000,000 or 30,000,000. The capital subscribed by the local native banks in each district must be fully in metal. Immediately the scheme and management is arranged, the bank would have to issue paper money for the total amount of its metallic reserve and coins. Simultaneously with the issue of this paper

the existing silver, old and foreign coins, might all be bought in. Care should be taken that, in spite of the fact that the bank possesses reserves for the full amount of paper, the latter is not forced on the people. The public must have the choice of either metal or coin. This would not entail hardship or failure, because it would be obligatory on the part of the district banks to give silver coin of legal tender of an equivalent value in exchange for bullion, the value being calculated on the weight and fineness of the silver offered. Of course, there is a contingency that the stock of the coin in reserve might soon be exhausted. But the bullion that is received by the banks could easily be minted at once and the stock replenished. It would be advantageous, therefore, at the outset, for the Government not to charge even for coinage expenses. Once the paper became popular, the coins would come back to the vaults of the banks, as it is generally more convenient to deal with paper than with metal or coin. What the Government would lose at first by not charging for the cost of coinage would be gained in the long run by economy in coinage, and coins remaining in the vaults of the banks, and not losing weight on account of frequent changing from hand to hand.

District Banks and Local Exchanges.

Equally important as the unification of currency is the unification of local exchanges in China, that is, monies of account. It is no use having a single coin or unit which may be legal tender throughout the country if it is still not possible to do away with the several monies of account. Unless

this is attended to, it is quite probable that the proposed tael would circulate along with the Mexican dollar or the Chinese dollar in parts in China, while for payment or receipt in each place the value of these coins would have to be calculated on the basis of the local weight and fineness. It would be rather hard to do away with the monies of account, and it is only by a gradual development that several local exchanges would altogether disappear. A common mistake has been the belief that the Government could legislate to do away with exchanges altogether. That such cannot be done has been proved amply. Again, the losses resulting to the banks and the local financial and other institutions must be made good in some way, by letting business run on the new arrangement without any dislocation. That part of the variation caused by touch and fineness of the local taels could easily be adjusted, because the basis of the value of silver remains the same in Chêngtu, as in Shanghai or Kaifeng. The object is to bring about a uniformity of the measure of value in all these places. To do this, one has to take stock of what is generally known as local customs, as also the periodical scarcity or influx of silver in different parts of the country.

Regulation of Silver Supply.

Such unification, however, could be effected with the consent and co-operation of local financial institutions or native banks. The advantages of a district bank as proposed by me would now be apparent. As shares of this bank would be held by all native banks in the district, as also by the Government,

and as the advantages of being a shareholder of the district bank would be many, the local institutions would, therefore, consent to co-operate to bring about some sort of uniformity. A very large proportion of the variation in local exchanges is caused by the periodical plenty or scarcity of silver. The operation of the district banks would surely be attended with the regulation of the supply of silver, either in the shape of bullion or coin, to demand in all parts of China. The control of the treasury over the several district banks would be mainly connected with the regulation of metallic demands throughout the country. As and when necessary, one district bank could, in lieu of its paper, obtain its value in metal from a neighbouring district bank; these notes when brought to another district would only be securities, and should, on no account, be put into circulation. The moment silver flows back into the first-mentioned district bank, it would be able to redeem its paper. There is really no danger in such inter-district bank business, because every tael's worth of paper held by every one of them is fully secured by coin or metal. Such an arrangement would certainly prevent heavy rises or falls in exchange in the different places, owing to want or plenty of metal. The differences in local exchanges would thus be reduced to a minimum. Allowances for local custom would, of course, prove rather a difficult matter to tackle; but, when district banks are sufficiently powerful to regulate the supply and demand of the metallic currency, the members of the bank would see clearly that to keep up the local custom under such conditions would prove detrimental to the volume of all trade, and consequently of

the profit of the banks. The disappearance of the differences arising out of local custom would only be a question of time.

District Banks and Government.

The constitution, functions and the methods of operation of the district banks would have to follow some general rules; and the measure of control to be exercised by the Government should also be decided. Above all, care should be taken that these institutions are independent, on the one hand, of the Government, and, on the other, of the native banks who subscribe the majority of the capital. The Government should, of course, control the business relating to the regulation of currency; but the banks should not be made subject to the whims of the Government officials, as companies like the China Merchants' Company, on occasions. The position must be one of mutual help between banks and the Government.

Methods of Formation.

In order to insure a effective reform as also to secure a perfect system of control by the Government, it is essential that the total number of the proposed district banks should be started, as far as possible, simultaneously. As the unification of currency is the fundamental object of these banks, such an object would be better and more easily attained by simultaneous activity than by a procedure that is likely to dissipate the energies in different localities and different periods. The details of the management, direction and control might easily be arranged; and as they might need modification to conform to special conditions in different localities, it would be

unwise to make hard and fast rules with regard to them. Nor is it wise to insist upon foreign directors, managers or secretaries for the direction of the institutions, although it would be advantageous for the Chinese themselves to have foreign advice and control.* In any case, the management of these banks should be in the hands of Chinese who have some training of the modern methods of banking as also a thorough understanding of, and acquaintance with, native banking methods. I do not believe in the possibility of thorough change in Chinese banking methods, however advisable it may be, because such a change would dislocate business and would result in more harm than good. As the native banks supply twice as much capital as the Government, they should, of course, have the majority of the directors on the board. But as the bank would have control over the note issues, and as it would be more or less a collector of taxes for the state besides being the bank of the state, the secretary or manager should be one whose nomination should be confirmed by the Government—this official being one acquainted also with foreign banking methods, as much as possible. The best native banks in the locality being members of the district bank, and the directors being chosen from among them, it is more than likely that, even apart from the supervision of the Government, there would be no likelihood of attempts at frenzied finance. A foreign advisor, enjoying the fullest confidence of the foreign banks and the Government, who has knowledge of Chinese banking, would prove an invaluable help. And it would be to the interest of

* At the start, it is certainly absolutely necessary to have foreign aid.

the banks to be frank with him, because of the advantages of keeping well in with the foreign banks in the ports and the foreign Governments to whom China is indebted.

Shares of the District Banks.

Shareholders of the bank should all be public institutions, and not private individuals. This does not imply that I have forgotten the fact that the best of the native banks are owned by single individuals or at the most by two or three partners. But the membership of the individual in the district bank would depend not on the individual's capacity, but on the fact of his being the representative or proprietor of a native bank. These institutions being practically the controllers of the national finance in different parts of the country, it is necessary that the shares should not be subject to the same fluctuations as those of ordinary banks or individual companies. As it is to the public advantage that the shares should be as widely distributed as possible—only among responsible native banks—there should be considerable restrictions in the way of transfers and sales. Of course, it is not suggested that individual sales and transfers should be absolutely prohibited; but the state should take care that such operations do not take place in opposition to public interest. No doubt, membership in a district bank would soon grow to be a privilege, and few would care to part with such right; steps, however, should be taken that this privilege is not bandied about at monopoly prices.

Bankers of Government.

As I have pointed out already, the capital of all these banks need not be

uniform. The amount must depend on local trade, currency demand and the capital that the native banks in the locality are able to supply. Performing the functions which I have detailed above, these banks need not necessarily have a large capital. In an ordinary banking institution, the subscribed capital forms an important part of the working capital, only during the first few years; but when a bank increases in prestige and is well trusted by the public that it serves, the subscribed or paid up capital of the bank is a very inappreciable part of the working capital obtained through the public deposits. In ordinary business, a bank which has a million pounds capital, without prestige, would possibly have a million pounds of deposits and thus work with £2,000,000 of working capital. On the other hand, a bank with only half a million pounds of capital, if it is well trusted, would have £10,000,000 of deposits and thus have £10,500,000 to work with. It naturally follows, therefore, that the initial capital is not usually a criterion of the credit, prosperity or profit of a bank. It would be advisable to have small initial capitals for the several district banks, because these banks start with the prestige and support of the Government. In the usual course of business, not only would the bank be a collector of taxes for the state but would also perform the functions of bankers of the Government. It is understood, of course, that within their respective districts, these banks should have branches in all the different administrative headquarters of the different districts in the provinces. The functions of these branch offices would be similar to those of the head offices—although the future of these

branches should be decided upon, after the Government has established proper treasury offices in the different districts of the several provinces. So far as the relation of the state to the bank is concerned, the scheme would work as follows: In each administrative district the official taxes in money would be paid into the bank as soon as they are received by the Government officials. Payments would be made through the bank for all necessary administrative expenses. The credit balances would be remitted to the headquarters of the district by the banks; if it should happen at any time that money is brought into the district from the provincial capital, this would be done through the agency of the banks. The head office of the district bank would not only receive all the Government monies sent by these branches but also customs duties, the salt revenue and other receipts directly under the control of the Central Government. All Government disbursements would be made by them. Thus, by means of these banks, the Government would have some sort of a check over provincial finance, while at the same time the provincial authorities would not feel the control irritating, as would be the case if a central bank from Peking or Shanghai should exercise the same amount of control.

District Banks and Native Banks.

So far as the public is concerned, the function of these banks would be mainly to control currency, and on no account should these banks be permitted to compete with existing native banks in ordinary business. It would be obligatory on the part of these banks to pay out coins or paper for all

the bullion presented to them, according to the nature of the demands made upon them. They might also receive deposits from private individuals. But they should, on no account, do other business like lending out on mortgages, etc., to private individuals. It might be asked that, as these banks have shareholders and are primarily business concerns, besides being the regulators of currency, how they are going to pay dividends. First of all, the capital is so small that, as I will show later on, the profits are sure to be big, in view of the temporary control of large sums of money belonging to the Government. Secondly, as in the case of semi-state banks, like the Bank of England or the Bank of France, the object of these institutions is not to obtain dividends. From the point of view of the Government, who would be the biggest single shareholder, the object would be to regulate and adjust currency. Towards the native banks, the district banks would perform the same function as the Bank of England does to the several joint-stock banks in England, the Bank of Japan to the Japanese banks, or the Presidency Banks in India to the other Indian banks. The native banks that are shareholders would obtain working capital from the district banks on a purely business basis. Good commercial bills, which the management of the banks consider safe, would be discounted. In the interior of China, buyers and sellers of produce are both Chinese. Supposing the buyer has not sufficient money to pay for the full consignment of silk he wishes to take delivery of. At present the native banks lend money, on personal credit, to the buyer, who brings the silk to the ports and sells it again for cash. Business is thereby

considerably restricted, because the native bank cannot wait for the long periods of three or six months, for which credit is usually given by the foreign banks. Supposing the buyer is able to sell the goods to a dealer in the ports who pays him with a three months bill on a bank in some other part of China, which has, however, a good reputation. The district bank would easily discount it, if such bill had the guarantee of two or three of the native banks, that are its members. In the same manner, much of the business that is being badly done or given up by the existing native banks, could be done better with, of course, the guarantee of the native banks. Following the example of the foreign banks in the ports, especially in Shanghai, the district banks could lend out call money to its shareholders, the amount to depend upon the credit and capacity of the several native banks. The usual business of lending money, or, financing trade in detail, should be performed by the native banks as at present; and as they have to be in the good books of the district banks, in order to have a regular supply of capital, there is little doubt that they would be more circumspect in their business than they are to-day. Another advantage, so far as business is concerned, is that each native bank would not only obtain capital from the district bank whenever necessary, but also deposit its surplus with the district bank; and, not improbably, this surplus would be availed of by another native bank, which, under the present state of affairs, could not obtain such capital. Thus the district bank will not only be the bank of the state, but also the bank of banks in each district. At the same time, the existing banks in the

each district would take every step to ensure the success of the district bank, because they would have a not unimportant voice in the management of the latter.

Foreign Exchange to be Eschewed.

I have already stated the method by which these institutions should manage the various local exchanges. From time to time, frequent shipments and receipts of coin and bullion might be necessary, at the outset. But with the progress of time, and better methods of business introduced by these banks, the frequent transportation of coin and bullion might become unnecessary—except at rare intervals. The object in view, so far, is only to have uniformity of currency values in the country; and, properly worked, the district bank would attain the desired results within a very short period. For the moment, currency reform in China might profitably keep away from foreign exchange. The foreign exchange banks are doing this work successfully at present, although not always advantageously to China. Such a situation is inevitable, so long as confusion reigns in the internal currency of the country. As I stated briefly in the chapter on the Standard for China, the very fact of the unification of the several currencies prevalent in this country would bring about steadiness in the relation between gold and silver. Thus the question of foreign exchange would find a solution, partly by the adoption of the silver standard, and partly by the foundation and working of the district banks. Much, however, would still remain to be done; but, on no account should the note-issuing banks in China take up to dealing in foreign exchange;

equally important is it that the Government, as at present constituted, should have nothing but a supervisory control of the note-issues of the country. But the Government should take steps in connection with the regulation of the foreign exchange, especially as it has large amounts to pay to gold countries. This point I will explain while dealing with the reserves of the district banks.

CHAPTER XIII.

THE NEW COINAGE

The adoption of the Shanghai tael as the unit and the establishment and proper regulation of the district banks, are preliminaries to the reform in coinage. I have given my reasons for not advocating a new or fictitious unit; I have also laid special emphasis on the fact that the unit for China should have, for the present at least, no hard and fast relationship with gold. In order that it may be easily introduced, the unit must be familiar to the Chinese people, and the Shanghai tael certainly is familiar to the trade. But when we descend to practicalities, we have also to consider the question relating to coinage. Until Dr. Vissering brought out his scheme, the unit which found favour with the reformers was the Kup'ing tael and the Yuan or dollar. Since the unit of the tael was considered too big for the every day transactions of the larger part of the Chinese population, the proposals were always associated with the maintenance of very small coins, so much so that even in 1914 the subsidiary divisions of coinage went down to 1 li or 1,000th of the proposed yuan. There is no doubt that a unit coin of unwieldy size is not always very advantageous. The old dollar piece of the Straits Settlements, when the standard was yet silver, and the peso piece in the Philippines, were of unwieldy size, being very inconvenient of carriage.

UNIT OF STANDARD AND UNIT OF COINAGE.

Although I have detailed the considerations recommending the adoption of the Shanghai tael as the best unit of standard for China, from the point of view of old traditions and the existing state of trade, I did not treat the question purely from the point of view of coinage. The main objection to the Shanghai tael would be that the standard is too big, involving the minting of heavy coins and keeping up minute sub-divisions. The confusion in this instance arises from the supposition that the unit has to be minted. It is, of course, usual to have the unit minted, like the sovereign in England. But there have been successful introductions of new units, while the unit coins have not been minted at all, except as multiples or divisibles. Too much has been made of the necessity for minting large quantities of the standard unit of the country, while in practice such is not the case in most parts of the world, even to-day. For instance, France and Germany are gold standard countries, with the franc and the mark as the units; but one never sees a franc or a mark in gold except as a curiosity, and it would certainly be very inconvenient to have the unit in the standard of the country. In the United States there are very rarely dollar pieces in gold, although the five-dollar piece is in general circulation—the dollar being mostly met with either in silver token coins or paper currency. In Japan there are no yen pieces at all, either in gold or in silver, in circulation; there are even no coins in circulation above the fifty sen token piece, all transactions being done with paper money. There is no reason why China

should not follow the example of these countries. But it may rightly be asked that, if silver is to be the standard, there should be some coin in general circulation, and a silver coin is absolutely necessary for a silver standard country. It is not generally understood that there is a world of difference between the unit of standard and the unit of coinage, although the unit of coinage must be based on the unit of standard. It is not always necessary to have an identical unit for the standard as also for the coinage. The considerations that play an important part in the fixing of the unit of the standard are the trade transactions of the country; the considerations that ought to regulate the unit of coinage are those relating to the daily life of the people. There is no doubt that the Chinese people are as a whole poor, from the point of view of the amount of money they spend for their necessaries, i.e., their standard of living is low, as compared with the Western monetary standpoint—although they are able to attend to their creature comforts as fully as, or even better than, people in Western countries. Therefore, the interests of the Chinese community as a whole necessitate the retention of coins of very small size. The Chinese have the cash, which is very freely used in the daily transactions of life, but mostly in multiples of three and four. In England there is the farthing which is 1/960 of a sovereign, which is the unit of the country. In Russia there is a quarter of a kopek or 1/400 of a rouble, which is practically 2/3 of the Shanghai tael. In France there is the centime or 1/100 of a franc, which is 1/3 of a tael; in India we have the pie or 1/192 of a

rupee, which is slightly over 1/2 of a tael. But to have a minimum division of the unit, does not always mean that coins of such denominations should be in free circulation. In England to-day, the farthing has become more or less a money of account; in India the pie coins are rarely met with; in France the sou, or five centimes, is the smallest unit in circulation. Therefore, it has generally happened that the smaller units of coinage disappear with an increase in the standard of living. But it would be bad policy to anticipate their disappearance and not to make provisions for coinage.

The Necessary Coinage.

Therefore, my proposal is that the unit of coinage should be five mace or 1/2 tael, only differing from the 50 sen piece of Japan in that, while the latter is only a token, the coin of China would also be a standard. The standard will, of course, be regulated by weight, on the basis of weight for value. The subsidiary coins in silver or in copper would only be tokens; and in the issue of these also, it would be wise to follow the established precedent. The Chinese people are already accustomed to the 20-cent and 10-cent pieces in silver and 2-cent and 1-cent pieces in copper. As a matter of policy, and as one of necessity, it would be advantageous to retain the weight and fineness of these coins, giving them, however, a different value—a value in relation to the new unit. However much the provincial mints have been haphazard in connection with the issues of the small silver and copper coins, the weight and fineness of these coins have been more or less uniform, in spite of

their various exchangeable values. Once we accept the necessity for tokens in subsidiary coins, the point that should deserve special consideration is, that they should on no account be thrown into the melting pot, for whatever reasons—as has been happening during recent months. The token coins are principally, and, to a large extent, purely, for the convenience of exchange of commodities among the poor people Too many of them have quite as bad an effect on the market as too few of them. Hence the farther they are away from specie point—in reason, of course—the better could they be regulated. The adoption of the existing subsidiary coins with the additions of a nickel five-cent piece and a copper half-cent piece should satisfy all the possible demands in the way of coinage in this country. Theoretically, there would be some objection to the adoption of the present subsidiary coins, because, under ordinary conditions, they would lead to a rise in prices. In other words, the retention of the present 20-cent piece, which is equal to one-fifth of a dollar as equivalent in future to one-fifth of a tael, or giving this coin one-third more than its present value may not always be attended with satisfactory results. This difficulty is, however, not insurmountable; and it cannot be obviated except in a land where token coins could be absolutely dispensed with, that is, in Utopia. In the Straits Settlements and the Philippines, a convenient process was adopted of giving a smaller coin the same value as the bigger coin that circulated previously; there was a slight disturbance of prices, but things soon adjusted themselves. In China it is possible that this action might cause a slight dislocation; but it must be remembered that along with

this reform would disappear the fluctuations in the values of the subsidiary coins—which are now almost always generally at a discount. When the Government, with the aid of the district banks and the Chinese commercial community, is able to regulate values, dislocation would be brought to a minimum. In any case the retention of the shape, size, weight and fineness of these coins would prove more of an advantage than otherwise.

Introduction of New Coins.

The proper method of introducing the new coinage, both the unit and the subsidiary coins, is indeed a problem. I expressly refrain from discussing the relationship between currency and the balance of trade, reserves and the several problems arising out of international trade, because such relations are better understood and adjusted after a stable local unit and coinage are popularized within the country itself. For ever so long, the question of the settlement of the balance of trade and reserves has been left to drift; and it would surely be no disadvantage to let it alone for a while until a sort of unity and regularity is established in the internal currency. As a matter of fact, the internal regularization of currency would, of itself, bring about a certain amount of stability in the relationship between gold and silver, or, in other words, in connection with international trade.

For the moment the question is one of the best means of popularizing the coins without dislocation in trade or disturbance in prices. Conditions in the country have remained unchanged for at least thirty years. Viceroy Chang Chih-tung has described them very accurately.

The considerations mentioned by Chang are very important and should have a great deal of influence in the decision of all questions connected with currency reform. Apart from the question of the standard, even the introduction of coins has to be guided by extremely cautious steps. The people are so poor, and the standard of living so low, that the slightest disturbance is likely to cause more evil than would probably be the case in any other country. When a man is able to live comfortably on forty cash or four cents a day in the interior of China, any step that would affect the value of his money or commodities by even half a cent would be productive of evil, and be resented by him; to the Westerner, or those trained in Western ideas and conditions, a variation of half a cent appears to be too insignificant to need even passing attention. The introduction of a new currency is always attended with a change in values, causing a disturbance in the values of commodities, or in the standard of life. A slight measure of disturbance is inevitable; but all efforts of reform should be towards minimizing the effects of such a dislocation. According to his own lights, Viceroy Chang sketched the following brief course when he put in a powerful plea for the silver standard:

"For the present we must begin reform by establishing uniformity in the silver and copper currency. The value of a tael in cash should be made fixed and definite. The values of the silver and copper currency must stand in a fixed relationship to each other. If this is accomplished the benefit to the country and people would be immense. This is in fact what ought to be done according to the law of orderly progress. Then, when

the currency has been made uniform, when silver and copper in the coinage have come to stand in a definite ratio, when the use of bullion as currency has been given up, when the order prohibiting the use of gold for ornamental purposes has been enforced, when products of gold mining have gradually increased, when within twenty years railroads have spread over the whole country, when silver coins become universally acceptable. when consumption of native products has increased, when manufacture by means of modern machinery has pushed into the interior, and when the circulation of silver has reached even to the remotest regions of the Empire—then investigate the situation and, if it is indeed necessary to have a partial circulation of gold, it may not be too late to consider attempting to introduce the gold standard."

Chang's memorial is a bit far fetched; but is reflects faithfully a thorough understanding of the position of his country. The uniformity in the silver and copper currency is the first thing that ought to be attempted and on the measure of success of this step would depend the future of all reform. As the cash is the prevailing currency in the land in all daily transactions, and as the tael is the prevailing currency in all trade transactions, and as from time immemorial the regulation ratio between the cash and the tael has remained 1 to 1,000—although such a fixity was never known in actual practice—the most important step is to bring about such a relationship. It might be asked if this is not superfluous, in view of the fact that coinage is to be based on such a relationship. But we have had too many sad experiences of the fact that

inscriptions on coins have no meaning at all. Bad regulations, or, to be more precise, regulation of currency without sufficient attention to economic forces, have unfortunately brought about a chaotic relationship between the relative value of currency and commodities. This is especially so in the case of copper, the value of the coins varying differently at different places. The primary cause is the debasement of the coinage; people would accept the newly minted coins only at reduced values. I pointed out that the idea of weight for value, even in the case of cash, was so deeply rooted among the people, in spite of the fact that copper cash was only a medium of exchange and not used like silver or gold for ornamental or other purposes. As it was simply a medium of exchange it would certainly have been easy to cure the people of the false idea, under the circumstances, but for the large number of spurious coins that were being daily thrown out on the market. The Government has been unable to control vagaries of coinage, and the spurious coins began to have also a value in the market. Even then the depreciation would not have been great; but the mints that were established since 1890 threw out enormous quantities of copper coins, while no attempt was made to withdraw the older cash pieces. Although it was simply and purely a medium of exchange, a very large quantity of ten-cash pieces had the effect of cheapening them; that is, their value in the shape of commodities depreciated. Even this would not have been so bad, if the supply of the cash had been evenly distributed, or distributed according to the demand in each city or province. Unfortunately the new coinage was simply thrown out haphazard and the quantities thrown

out in each market depended on the proximity of the mint, zeal of the mint authorities, the copper available and the speculators, who traded on such supplies. Therefore, the value of the cash varied differently at different places, the circulation being almost always at a discount.

Copper Coins.

Now, therefore, the first efforts in the regularizing of currency should be devoted to copper, because as Chang Chih-tung stated 90 per cent. of the business in China is done in copper in the interior. The difficulty would be in regard to the manner in which the Government could regulate all prices; it is very easy to legislate that so and so many copper coins should go for a tael; but such regulation is of no value if prices are high and copper coins are circulating at a discount. Now that it is generally known that copper coins throughout the country are circulating only at a discount, what the Government, through the district and native banks, could do is to buy up as much of the copper coins as possible—without dislocating business. Even such buying should be carefully regulated, because if in one province the buying is done energetically and no buying takes place in others the result would be not very advantageous to the people, or to currency reform; as the object is to bring a uniformity out of the jumble of the multiplicity of coins and values, the measures taken in the different parts of the country should be simultaneous and carefully regulated. In the beginning, of course, the Government would have to pay in bullion, or in new unit coin, according to the choice of the

seller. At the same time, the Government, through the banks, might introduce the new two-cent, one-cent and five-cash pieces in paying out the salaries to the officials, as also in such other transactions in which they could use compulsion without dislocation. As such introduction of coins goes along with the withdrawal of the old copper coins, the object of raising the value of the copper cash in terms of silver would be easily achieved. I have mentioned already that the two-cent and one-cent pieces be minted in the same shape and size as at present; only the tael being the standard, their value would be a third more than the normal value of the present coins—without any discount, of course; the half-cent piece would have half the size of the one-cent piece and with half the value. The object of the withdrawal of the old copper coins, including the cent piece minted in the modern mints since 1890, would be to raise the value of copper currency until the rise approximates the proposed value of the new copper coins; the Government would be wise to restrict the issue of the new copper pieces as much as possible, at the outset.

Silver Subsidiary Coins.

While the circulation of copper coins would thus have to be attended to, the subsidiary silver coins should also attract due attention. For the moment, the position is satisfactory; the provincial mints are not issuing small coins, and a good deal of the already minted coins have gone back into the melting pot. I have also mentioned that the new 20-cent and 10-cent pieces, or, 2-mace or 1-mace pieces, should be of the same shape and size as the present

coins; only their value would be a third more than that of the present coins, without any discount, of course. It would also be advantageous to have a nickel coin of five cents, of a size and weight which can be easily decided upon. The raising of the value of silver subsidiary coins would be attended with a great deal more difficulty, than in the case of increasing the value of copper coins. It is certainly an anomalous position—to have a silver standard while at the same time having subsidiary silver token coins. The Chinese are accustomed to look for weight for value in silver coins; consequently, on account of the larger alloy, the present subsidiary coins have depreciated. How is this difficulty to be got over? The withdrawal of the present small coins would help to a certain extent; but would the Chinese accept any silver coin merely at its face value? The only manner in which it could be done is by the Government and the banks and merchants co-operating to keep up the value. All government tax offices, the district banks, native banks and even the foreign banks might be induced to take the small coins and pay the standard coins or notes in return, according to the value fixed by the law; at all offices, five 20-cent pieces or ten 10-cent pieces should fetch two five-mace coins, having the full weight of silver, or a tael or paper note. When people know that these token coins are worth their face value in silver, there would be no impediment to their free circulation. The argument that people would all go in for the unit of coinage, because it contains the full weight in silver, instead of the subsidiary coins, cannot hold much water, because the standard of living in this country is such that the use of the 5-mace piece can

in no sense be so general as to replace the use of the subsidiary 1-mace and 2-mace coins. All that the people want is an assurance that the coins are worth their face value; once such an assurance is given, the ready acceptance of such coins at their face value is a matter of course.

The details of any scheme for the introduction of the new coinage must depend, of course, upon particular local conditions. But on the whole, in a country like China, the introduction would be attended with extreme difficulty, especially when any scheme proposed has to guard against the new coins becoming an addition to the already existing confusion, as also depreciation of values. For this reason, therefore, I am entirely opposed to the scheme of Dr. Vissering, who leaves the withdrawal of the old silver dollar, old sycee and the copper cash, and their subsequent demonetization to the very end. I have stated enough to show that the success of the introduction of the new currency would depend almost entirely on the success attending the withdrawal of the existing numerous currencies. For a time, of course, it is inevitable that the new currency should circulate side by side with the old, in some places. But such a state of affairs should only be allowed on sufferance, and not serve as a step in the process of currency reform. The danger of allowing the old and new currencies to circulate side by side for any length of time lies in the possibility of the new currency becoming ultimately powerless to displace the old. Above all, especially with regard to copper and silver subsidiary coins, the principal object of reform should be to do away with the several discounts and raise their values

—which could only be done if the numbers of them circulating are reduced as much and as quickly as possible. But it may be asked: what could the authorities do if at the outset people refused to take in the unit coins at their face value? It is to avoid such a possibility that I have premised the introduction of these coins with the district banks, to be formed with the co-operation of the native banks. When the native banks accept the new coins without discount, it is only an easy step further to induce the public to accept it.

Minting.

The introduction of the new coinage presupposes proper arrangements with regard to minting. Owing to the unfortunate delusion among the Chinese that currency reform meant exclusively the introduction of properly-milled coins too much attention has been paid to turning out the coins, without sufficient care being devoted to other and more important problems connected with currency. Further, the same train of thought led to the belief that the larger the number of mints the greater the ease with which reform of the currency could be accomplished. To a certain extent, the establishment of the several provincial mints was due also to the misdirected ideal of provincial authority and autonomy; each province believed that it was conserving its rights by retaining the right of coinage. Even far-seeing statesmen like Chang Chih-tung were unable to control this phase of the question, and although their intention in making proposals was to have a single and centrally-controlled mint, they were unable to direct events to conform to their intentions. It is,

however, a consolation that half the number of provinces have still no modern mints; and the old processes of turning out the cash are of little value at present.

Advantages of a Central Mint.

Any scheme for reform has to decide once for all the proper authority that should have the exclusive right of coinage. As in no country has a bank the right of coinage, the question narrows itself to one of the rights and prerogatives of the central and provincial Governments. Much as it is desirable that centralization of administrative power should be achieved at as early a date as possible in China, care should be taken not to court failure as on many previous occasions. Centralization of all power is as detrimental to the public weal as the excessive decentralization, which has been the special feature of the Government in China for centuries. There are certain departments or branches that ought to be controlled by the central authority, and others that ought to be left to the provincial and local administrations. Mainly through foreign pressure and the tact of Sir Richard Dane, the Salt Administration is being gradually centralized. Now, even more than the Customs and salt, the right of coining money should be in the hands of the Central Government; luckily the interests involved in the change are much less than in case of Customs or salt. The several provincial mints are only later growths, and many of them are in a bad way. Moreover, the experience of the past has shown conclusively that a proper uniformity is not easily attainable when ten different mints in far distant places are all

working at one and the same time. Even as early as four years after the establishment of the first four mints in China, it was found that there was a good deal of re-duplication of coinage, while they were as far from bringing about a thorough uniformity as possible. Money, currency and coinage never remain purely provincial problems; the issue of a large number of coins in one mint not only affects prices in that locality, but also disorganizes business and Government finance in other places. It may be argued, on the other hand, that the whole world is inter-connected by trade, and hence there should be a central coining authority. Such an argument is too far-fetched. The correct attitude to take, as a result of the proper understanding of the effects on coinage on economics, is that the control should be centralized in every state, which exists as a political entity. Or, conversely, no division of a state or kingdom should be allowed to have any sort of control over the coinage of the realm. Therefore, a proper regulation and control is possible only when the Central Government has the exclusive right of coinage.

There are also other factors, purely economic, favouring my proposal. There are a great number of items of expenses connected with coinage. As the main object or purpose of currency is to have fluid currency, the object would be defeated if the expenses were not brought down to a minimum. It goes without saying that one central mint could mint the coins necessary much more cheaply than a number of mints. Also, one central mint could distribute currency much more cheaply, and with due regard to the local conditions of demand and supply, throughout the country. Again the Central Government

could control one mint with less difficulty than it could a number of mints. The initial cost of the necessary machinery, to cope with the full demands of the country, for one mint would be much less than for a number of mints. The present conditions are, however, different and there are already several mints; it may be argued that each is equipped with the latest machinery and hence the question of initial cost should be no part of the present consideration. But owing to the necessity for centralization and for various other reasons we must take it for granted that the present mints should go out of business; in other words, it would be cheaper to China, to let them go out of business than to make use of them.

Shanghai, Most Suitable for a Mint.

The next question is where the mint should be located. Reformers like Dr. Vissering have advocated Peking, and others have advocated the retention of the Peiyang Mint as the central mint for the country. Once the idea of a central mint is accepted, the considerations that should determine the place where the mint should be located are: the ease of Government supervision, nearness to the place where there is usually the largest stock of silver, propinquity to the centre of the greatest demand for coins and the establishment in a place where the metal for coinage is obtained at the cheapest cost. It would, of course, be stupid to urge an establishment of central mint at Chêngtu or Kaifeng, because the very cost of transporting the metal to the mint and retransporting the coins to the different trade centres would be so great as to nullify all the good effects of the introduction of a uniform coinage. Peking

is being favoured at present. The one great advantage is that it is the capital and the greatest attention would be paid to supervision; but in all other respects there is no advantage. If there is any place best suited for the establishment of a central mint it is Shanghai. All the silver that comes from foreign countries arrives first in Shanghai and is then distributed to other parts of China—with few exceptions, of course. The greater part of the metal of this country is left with the foreign banks in Shanghai at all the periods of the year. Merchants from Szechuan, Newchwang, Fukhien and Shensi, all come to Shanghai to buy their goods. As trade is regulated from Shanghai and as most of the money comes to Shanghai at some period or other in the course of trade, it is a correct syllogism to conclude that Shanghai is the best place from which currency could be regulated. The advantages of Shanghai briefly, are (1) the cost of metal for coinage, silver nickel or copper, would be the cheapest; (2) the regulation of currency from this port would be the easiest; (3) the Chinese Government could have advantageous help in the shape of the co-operation of the foreign banks, who, after all, have the greatest voice in the regulation of the trade of this country; (4) all foreign obligations of this country are being met in this port; and, therefore, to have the mint in Shanghai would be to the advantage of China; and (5) there would be far more check on the misuse of the mint by the state in Shanghai, than in Peking.

Even when the mint is established and proper coins are minted, we are not much nearer our goal. It is only when the Government is able to supply the unit coin for whatever amount of silver is presented

at the mint with as little cost for coinage, and as little delay, as possible, confidence in the new currency would be generated and the regulation of currency would be achieved. The several steps that would have to be traversed in bringing about this result are certainly arduous; but with the successful inauguration of the initial steps, i.e., the adoption of a standard, the adoption of a unit of coinage, the establishment of a mint, and the establishment of the mechanism of the district banks, by means of which the new currency would be circulated and the old currency withdrawn, the foundations of reform would have been laid.

Chapter XIV.

FOREIGN EXCHANGE AND RESERVES

So far, I have dealt with the question of the reform of currency and banking, purely from the point of view of local interests. I adopted this course more from the point of view of convenience, than with any desire to ignore the importance of foreign exchange. Moreover, the regulation of foreign exchange is impossible unless the uniformity of internal exchange is a settled fact. The steps that I have detailed so far are with a view to bringing about such uniformity. It should not, however, be understood that foreign exchange should be attended to, only after all the various currencies within the country are unified. At the present stage of development, such a course, however desirable, is out of the range of practical politics, because each year China has to pay out about Tls. 55,000,000 on account of interest and amortization on the existing debts; and with the progress of years the totals on this account would gradually increase—even supposing for the moment that there is no likelihood of further borrowings on the part of China, for whatever purpose. Except for a very small portion of this total, China has only silver to pay with, while foreign creditor nations demand sums due to them, in gold. Apart from this, there is still the more serious question of deficit, on account of the lop-sidedness of the nature of the trade of this country. Although during recent years, the proportion of advance in exports in this country has been

greater than that of the imports, there is no getting away from the fact that each year a particularly large addition is made to the sums due by China to foreign powers. Leaving out the exceptional years of 1906 and 1907, when there was an abnormal difference between the two trades, the average annual deficit during recent years may be roughly put at about Tls. 100,000,000. If the trade situation is to continue in this manner, and even allowing for a larger increase in exports, the payment due from China each year, both on trade and loan accounts, is not likely to be below Tls. 180,000,000 per year. As the value of the gold that China is able to export each year has rarely exceeded £3,000,000, this means that, roughly, she has to pay out about £17,000,000 a year. The position is that China has no choice of the shape in which this amount would have to be paid ultimately, whatever may be the nature of the intermediate processes. As the lenders, or those to whom sums are due, are entitled to demand gold, this large settlement year after year naturally enhances the value of gold. The result is that this country is placed at a disadvantage, in connection with all questions connected with foreign exchange. Consequently, no currency reform could be thorough or acceptable, until China's position in this respect is made better than it stands at to-day. At present she seems to have no control whatever over the regulation of foreign exchange, except such as is possible through economic causes operating within her boundaries. Therefore, means must be contrived by which the Chinese Government may be enabled to regulate international exchange as it affects China, and make it as favourable to her as possible.

The Problem of Exchange.

The difficulties in connection with international exchange, and the fact that China has always been at a disadvantage in this respect, have tended to influence reformers as a rule towards suggesting gold or the gold exchange standard for this country. The argument has been as follows: sums due by China would be definitively fixed once for all and China would not be forced to pay more than she should pay. It may easily be seen that such an argument is fallacious. The sums are only definitively fixed in gold; the wealth of China is in silver, and she has to pay in silver. The result of the adoption of the gold standard would be, as is well known, the permanent depreciation of her national wealth. In other words, under the gold standard she would have to pay annually an amount much larger than would ordinarily be the case—except, of course, when the value of silver is at its highest level. If the object is to bring about a better adjustment of the relative value of gold and silver, mere legislation would not do; therefore, the adoption of gold would only mean running away from the difficulties.

Economic Forces Alone Effective.

The alternative plan is to let the economic forces have free and full play in the fixing of the ratio between gold and silver, and let legislation play a secondary part to bring about a state more advantageous to the country than at present. To a certain extent, no doubt, economic forces might be directed by legislation—but only to a very limited extent. Other factors like the process of the settlement

of balances, have an influence, favourable or otherwise, on exchange. Having adopted silver as the standard the next step for China would be to take such steps as would confer on her sufficient power to regulate exchange in consonance with the free play of economic forces. At present, she has practically no control over foreign exchange and this is mainly due to the fact that her internal currency is chaotic. I do not suggest that the foreign banks who control exchange are acting arbitrarily or in a manner tending to jeopardize Chinese interests. But the fact remains that, with proper regulations and a better internal currency, she should reduce the amounts payable to foreign countries every year. This again should not involve the usurpation of the business of the foreign banks, as the scheme of Dr. Vissering will practically amount to in the end. For decades it would be impossible to displace the foreign banks. In the case of the foreign banks as with the native banks, the Chinese Government would do well to seek their co-operation and not disturb the vested interests and tradition of the past half century.

The Principle of Exchange.

So long as there is money and trade, so long as the prosperity of one nation depends upon its volume of commerce with others, and so long as it is not possible for any one nation to settle all its accounts with its neighbours in commodities only, there would always be the problem of international exchange. The principle on which such exchange works is exactly like that on which individual business is based. When two persons are dealing with one another, and one

has an excess of money while the other has an excess of commodities, the man with money would gladly pay more of it to get the goods, and the man with the goods would give more of them to get the money. After a few transactions of that nature there comes a stage when the man with the goods believes he has had enough of money or the man with the money believes he has enough of goods; consequently the man with the goods would not part with them at the same cheap terms he did until he received a sufficiency of money, and the man with the money would not pay as much money for further transference of ownership in commodities unless he obtained more of the latter for his money. Applying the same principle to international commerce, the nation with a lot of commodities to sell and an insufficiency of money is naturally willing to give its commodities cheap in order to obtain money; on the other hand, a nation with a lot of money but wanting commodities is willing to pay a higher price than usual in order to get hold of the commodities. As soon as the nation with the commodities receives money sufficient for its needs it stops selling unless it gets its own price; or in other words prices go up. As soon as a nation with money has received commodities sufficient for its needs, it refuses to pay the same price as before; or in other words prices go down. This process is continually going on in the trade among nations; and the periodical adjustment of prices is the international exchange.

In Europe and America the variations in the exchange have been restricted to very narrow limits; the main reason is that money or commodities could always easily flow from

places where they are abundant to places where they are wanted, on account of the perfection of the steamship and railroad communications. The mistake is often made, even by reputable economists, that this restriction in the variation is due to the adoption of gold as the standard by countries in Europe and America. No doubt the uniformity of the standard of value helps, to a certain extent; but to attribute to it the full effects of other causes is simply absurd. My point is conclusively proved by events which have taken place during the war. The American exchange suffered enormously, while the Russian exchange was simply ruinous owing to the fact that, in spite of the common gold standard, the war stopped proper communication and the free flow of trade and gold. There is, however, one advantage in a common standard of value. Except at times like the present, when trade and exchange are almost impossible, in many instances, there is always a specie point beyond which exchange could not rise or fall, i.e., if exchange rises above or falls below a certain rate it becomes profitable to export or import gold. But such advantage is, in most instances, nullified by the undue rise in prices which, in its return, affects trade even more adversely than exchange.

Exchange and Trade.

Now let us revert to the position in China. As is well known China is not able to pay for all the goods that she buys in the shape of commodities. She has a big annual balance to meet, both on account of her foreign liabilities and on account of trade. Only two courses are open—apart from the adjustment of exchange; one is to stop buying more

than she could pay for in commodities, and the other is to export enough to meet, not only the value of imports but also the total of the annual payments due on account of her foreign debts. To stop buying imports is neither possible nor practicable, because this trade is almost exclusively regulated by the laws of supply and demand. For the matter of that, the export trade is also regulated by the same law; nevertheless, I need not unnecessarily emphasize the fact that there is really a greater demand for China's produce than the country is able to supply at the moment—owing to various causes. Therefore, increasing the export trade is more within the range of probability, if the right steps are taken towards that end.

How Exchange is Controlled.

It might be asked that, if such is the case, what part could exchange play in this adjustment? Under my proposed scheme, there would be no radical change in the situation so far as international exchange is concerned; China would still remain a silver standard country, dealing with the gold countries. Just as the efforts of the gold countries have always been directed towards getting as high a price as possible for their commodities as also as good a price as possible for their money, the endeavour of China should be to sell as much of her produce as possible and to obtain as much gold for her silver as possible. Neither process could go on in a straight line, and an adjustment and compromise takes place, almost unconsciously, from time to time. So far, such compromise has not been altogether favourable to China, because she has taken a very small part in bringing

it about, and the whole management has been left to the foreign countries and foreign banks. To take a common example: whenever exports begin to be active exchange goes up in a much quicker and higher ratio, than the fall in exchange, when imports are busy; and several payments of the Government on account of its liabilities always bring down the rates to the detriment of China. Now, if the Government took a hand in the regulation of exchange, the least that it could do would be to bring about an equipoise and equal advantage to China as well as the foreign countries. In European countries, the regulation of exchange takes place almost hourly. The quasi-Government banks, like the Bank of England, or the Bank of France, could always put up or down the rates, as it suits them; any action on the part of one country is always counteracted by the other, if it suits the latter. In European countries the quasi-Government banks regulate all finance, especially that of trade and exchange. As there is to be no such central bank in China, the Government or the Treasury, would have to undertake the duty of regulating international exchange. This is certainly not an innovation. In India, the Government has been doing it for a long while; and in the United States it is the Treasury, with the aid of the Federal Reserve Board, that has attended to the problem of exchange, under the operation of the new Federal Reserve Act—on the occasion of the last war.

The Regulation of Exchange.

If the Government or Treasury in China takes upon itself the task of regulating foreign exchange, the next point for consideration is

the manner in which it could do it successfully. In India the Secretary of State is the largest dealer in foreign exchange. "By regulating the amount of bills he offers for tender, he is able to regulate the level of exchange. When exchange is falling below par he can support it by greatly restricting his offers; and if he cannot get at least 1s. 3-29/32d. for his bills he withdraws from the market. In the meantime, he has payments to make in England, while on the other hand rupees accumulate in India, as the revenue flows in and no Council Bills are presented for payment. If the cash balances in London are not sufficient to stand the drain on them, gold at the Bank of England may be "un-earmarked" and placed to the Secretary of State's current account, rupees in India being transferred at the same time from the Government balances to the silver portion of the paper currency reserve—the reserve process from that which has been described already as the result of exceptionally large sales of Council Bills." * The Indian authorities must be prepared to supply rupees in payment for Council Bills or in exchange for sovereigns. And on the other hand they must be prepared also to supply sterling or sterling drafts in exchange for rupees. The maintenance of the Indian system depends on their ability to fulfil this double obligation to whatever extent may be required of them. This is briefly the position of India; and I think that this is the best example that China could follow. Of course, there are differences; but, nothing fundamental, so far as the process of regulation of exchange is concerned. As in India, the aim should be towards bringing about a steadiness in

* "Indian Currency and Finance," by J. M. Keynes, pp. 119-20.

exchange, without any advantage for a considerable period to one side or the other. For instance, if on one occasion there should be heavy demand and rates are tumbling down, the Government could sell gold for the time being and steady the exchange; and, if on another occasion very large amounts of bills are offering, the Government again could come to the help of the market by buying drafts on London or New York. The mechanism by which the Government could put through such transactions, the processes necessary for such business, the accounts that the Government could settle in that manner, and, lastly, the capital with which the Government could do this business are all points of serious consideration. The Government of India tenders its bills one way or the other, and the exchange banks buy; in China also, the exchange banks should do the business and it would be the cheapest way to do business through them. Not only foreign exchange, but also local currency, would have to be regulated by such means, because the free circulation of the new currency would depend very much on the course of the foreign trade. The capital with which the Government could undertake this business is its reserve, which it leaves with the district banks for the circulation of its paper currency. The process which the Government should adopt can only be understood, after one has a clear grasp of the meaning and purpose of reserves.

Reserves and Credit.

The Chinese have not yet been fully educated to understand the meaning of reserves; as, according to their traditional

ideas, they always consider trading with actual bullion as the most desirable of operations, they have yet to learn that, so long as there is bullion or coin to meet every possible emergency, trading with credit is even better than trading with bullion. Their time-honoured customs have again induced them to believe that credit as understood by modern European nations, is not a desirable equation in trade; therefore, they have understood and practiced nothing but personal credit, which plays but a small part in modern commerce. Personal credit, as much as national credit, plays, however, a big part in big operations; and it may be remembered that some time ago, giving evidence before the Currency Commission of the United States, the late Mr. J. P. Morgan said that he would prefer to lend a million dollars to an honest man with no security than to an untrustworthy man with all the securities in the world. But such is not practicable in ordinary every day business. The credit of an individual or a bank has to have a substantial backing. The extensive use of credit is only in order to minimize the use of money. The only manner in which the banks could maintain their credit is by having adequate reserves.

Utility of Reserves.

For this purpose, we should start with the proposed district banks. At the start these banks should have the full amount in bullion and coin, to meet all the paper issues. Issues of paper by the district banks should be the thin end of the wedge in introducing sane credit into the country. For a time, until both the new coins and the notes are freely accepted by the people at their face

value, it is absolutely necessary that the banks should make no further extensions of credit in this direction. This process is indeed costly, because unlike the case of well-established issuing banks, the capital available for the banks would be limited. I do not wish it to be understood that in any well regulated state, the issuing banks or the Government do not have the full amount of their note issues covered; but the cover is not all in bullion or coin. For instance, in India, a good portion of what is mentioned as gold reserves is lent out on short loans or invested in gilt-edged securities. At the beginning, China would perforce have to do without such an advantage, because such process, at the start, might lead to distrust in the new currency, both paper and metallic. When once the people have accepted the new currency and when there is not the slightest danger, in normal times, of a run for obtaining metallic money, then the reserves might be utilized for other purposes. At the same time, the capital of the district banks might also be increased. When starting, as I have pointed out already, it is not wise to start with a big amount of capital; nor is it possible to obtain very big amounts at the outset, as the native banks would have to furnish, under my scheme, two-thirds of the capital. It would, of course, be even better in the future not to increase capital and to utilize a large portion of the profits for the purposes of reserves. When the period for adding to the reserves arrives, then these banks might take a hand in the regulation of foreign exchange. As with every addition to the reserve, the note circulation would also be increased by the same amount, the main object should be to meet the whole

of the notes whenever and wherever they are presented. Therefore, the principle on which the reserves are built up should remain unchanged. Still, however, when the confidence in the new issues is built up there is no reason why the addition to the reserves should not be of further service to the people and the Government.

Reserves and Exchange.

The best service that a proposed metallic reserve could serve is the regulation of foreign exchange—as the local exchanges would by then have been fully regulated. The Chinese Government could only regulate foreign exchange, if it had adequate supplies of both gold and silver. If all the reserves should be in silver, it would mean that China for all time would be at the mercy of the gold countries. To obviate such an eventuality the best plan would be to keep a part of the additional metallic reserve in gold, in one of commercial centres of Europe, preferably London, because it is the money centre of the world. Another advantage of keeping the reserves in gold and in London would be that the whole amount need not be in metal or coin; the larger part of it might be invested in gilt-edged securities, or loaned out in call money, thus bringing in a small return to China.

The Modus Operandi of Foreign Exchange.

A detail of the manner in which, with such reserves in London and in China, foreign exchange would be regulated, is necessary to help us understand the advantages. The proposed plan is not altogether a novelty, as

already the Bank of Japan has been following a somewhat similar course. The difference between China and Japan would be that, while in this country the Treasury would have to do such operations, in Japan the Central Bank, i.e., the Bank of Japan is operating. There is even a better parallel in the Treasury and the Federal Reserve Board of the United States which, along with the Treasury, act for the Federal Reserves Banks in that country. In the crisis following the European war, the very first act which the Federal Reserve Board had to do was to regulate the exchange between the United States and England, which had become unfavourable owing to the dislocation caused by the war. In this country also, an advisory or executive board of the representatives of the several district banks might profitably act in conjunction with the treasury. Such a board would certainly be advantageous in that the Government would not be allowed to manipulate exchange to suit other purposes than that of the general well-being of the people. But this and other details could easily be arranged and adjusted, while the reform is being carried out.

The process by which exchange would have to be regulated will, in practice, be very complicated, and I shall only give the principle of such operations. Supposing that, on a certain date, the foreign banks in China are inundated with demand, and exchange is falling; at present there is no other remedy but the counter-rush of bills or some special demand for all the silver offered in London by the China banks. Under my scheme, the moment exchange is falling unduly, the Treasury would sell sterling on London for an amount sufficient to counteract the drop

in exchange. While the Chinese Government would have to part with a portion of its gold reserve in London, the foreign banks in China would have to pay an equivalent amount in silver to the district banks. There would thus ensue a double advantage. When the foreign banks are inundated with demand, it is generally the case that there is a scarcity of capital among the Chinese, because they pay in coin or bullion into the foreign banks. If by the action of the Treasury, the foreign banks have to return half of the money they received from Chinese dealers to Chinese banks, the market would be saved from the effects of a scarcity of capital. Another advantage would be that, by stopping the sale of silver by foreign banks in London, the Chinese Government would be able to keep up exchange or the gold value of silver. Or let us take another example. Supposing bills for very large amounts are offering in China and exchange is rising heavily; the result would be an accumulation of too much of unusable capital with the Chinese, and owing to high exchange the export trade would be hindered. If, on such an occasion, the Chinese Government offered to buy gold in London by paying the bullion or coin to foreign banks in China, the rise in exchange would be checked and the market saved from a plethora of money. At the same time, the Treasury would receive in London the gold it lost by the previous transaction, i.e., the sale of gold to check the effects of excessive demand. These arrangements would also prevent the unnecessary and heavy losses incurred at present by the Government in meeting its obligations to the European countries and markets. If, for instance, exchange was high on account of heavy bills,

on a date when the Government payment was due, the Government might continue to pay silver as it does at present; or, otherwise, if exchange should be low the Government could set apart a portion of its gold reserves in London to meet such payment.

How the Government Might Benefit.

But, it might be said that, as the variation in the price of silver does not altogether depend on Chinese trade and Chinese Government payments, the regulation of exchange by such means could not go very far. There is certainly a modicum of truth in such an argument; but I contend that in any case the Government could do a great deal to keep exchange steadier than would be the case otherwise. The greater portion of the output of silver goes into consumption by the arts; the next largest proportion goes to India and China; and the balance is taken by the European countries and America for token coinage. Supposing there was a great paucity of demand from India, or from other countries, and silver was dropping in value; China could then buy a portion of the stocks and thus relieve the market, incidentally helping herself by keeping up the value of the white metal. The cost of keeping the stocks for a time would be much less than the losses incident upon a heavy fall in value and consequent dislocation of trade in China; it must, however, be understood that it rarely happens that stocks of silver remain unsaleable for any length of time. Or take an alternative example—as in 1906/1907 or 1911/1912, when the Government of India was a heavy buyer in the market; prices went up to an unnecessary

extent, and the dislocation of the export trade of China was ruinous. On these occasions China was powerless to do anything; she, however, profited in having to pay less in the shape of indemnities, interests, etc.; but such profit was at the expense of the general prosperity of the people. In China trade, as in no other trade, a steady exchange is much more valuable than anything else. At the time when the Government of India was buying heavily, if China had a proper currency, she could have thrown a good deal of her silver stocks on the market and steadied prices. If there had been a mechanism for keeping reserves in London she could have received gold in London for the silver shipped from Chinese ports, and when prices came down bought back the necessary quantity of silver at favourable prices; thus a big profit might have accrued to the Government, while the dislocation of trade would have been reduced to a minimum.

Part of the Reserves may be in Gold.

The advantages of keeping a part of the reserves in gold are that by such means it would be possible to steady the price of silver and that the existence of the gold reserve in London would enhance the credit of China. There is, however, the disadvantage of fluctuations; it might be argued that a reserve that fluctuates in value cannot rightly maintain the character of a reserve. In principle, no doubt, the argument is sound; but in practice, there is no country in the world whose reserves remain unchanged in value at all times. Even gold bullion varies in value from time to time; and in most countries the total of the reserves is not kept always in bullion or coin. The keeping of

a portion of the reserves in gold for a silver standard country has a parallel in France, Germany or Austria which, while remaining gold standard countries, have a portion of their reserves in silver. International trade is a more important factor in the economics of China than in the case of France or Germany; hence a slight deviation from the principle is not to be condemned or opposed.

While the regulation of exchange would be the principal function of the gold reserve in London, the fundamental object of the reserve should not be lost sight of. The Government and the district banks in China should be prepared to redeem on demand every dollar worth of paper money, that is offered to them, in silver coins. The arrangement with regard to the gold reserve should be such as not to interfere with this primary object. So long as the amount kept in gold is not large, there is no reason to believe that there would be any interference with the primary function of holding sufficient silver to cash paper money. Should it happen, at any time, that there is an abnormal demand for silver, the Treasury could always sell the gold in London and receive silver from the foreign banks operating in China. If the scheme proposed so far is properly worked, such an eventuality is out of the range of probability.

The Treasury and Foreign Banks.

The relation between the foreign banks and the Treasury, and the foreign banks and the district banks would have to be adjusted on a new basis, when these reforms are carried out. It is a mistaken idea to suppose that the foreign banks could be put out of business by any development that takes place

in China, for at least several decades to come—except at the risk of incalculable harm to China. There is no use of Chinese institutions encroaching upon the functions of foreign banking institutions, primarily because Chinese banks do not have the capital, experience, connection or confidence necessary for the business. With their comparatively large capital and very widespread organization, including a network of branches in all parts of the world, foreign banks are able to obtain capital with the least expenditure of money. The greatest asset of foreign banks is the confidence reposed in them by the public and the justification of such confidence by a thorough publicity of their business and accounts. In any case, so long as the foreign trade of China is practically exclusively in the hands of foreigners no Chinese bank, however well constituted, could successfully bid for such business against the well-conducted foreign banks; nor could the former offer the same facilities to the merchants as the latter. Even wealthy Chinese have so little confidence in their own institutions as to deposit their liquid wealth in the foreign banks. Therefore, the best plan to adopt would be to seek the co-operation of the foreign banks for the reform of currency and banking in this country. For the Chinese Government itself, the foreign banks would prove the cheapest means of keeping in constant touch with the markets in all other parts of the world. As they control practically the larger portion of the stock of silver in this country, they remain great powers for good or evil.

FOREIGN BANKS AND CURRENCK REFORM.

Even responsible people have often thoughtlessly stated that, as the foreign banks

make a very large profit in exchange, they would be the chief opponents of any reform of currency. By constant repetition this statement has acquired the characteristic of truth in the eyes of not a few people. It is, however, a libel. It is not true that the foreign banks make all their profits in exchange, the chief source of their revenue being from the judicious use of their deposits and discounting bills. They are certainly not in a position to regulate exchange as they would like to, because China is not the only factor of the silver market. Again, there is competition among them; when one bank wants exchange high another wants it low, and each and every bank attempts to manipulate the market to suit its own interests. No doubt, as between the speculator and merchant who deal in exchange on the one hand, and the banks on the other, the latter are in a more enviable position; but it does not mean that they have the best of every transaction. It is to the interests of the banks themselves to have a steadier exchange than has prevailed in China for some time past. Because, in such case, there is bound to be a larger growth in the volume of trade, which in itself would be a decided advantage, quite as much to the banks as to the merchants. Further, much of the uncertainty in connection with the variation in rates would be done away with. Above all, gambling or transactions of chance, arising out of exchange fluctuations is not profitable for all time. When once there is profit, there is generally a reaction which is neither pleasant nor profitable. The foreign banks are fully aware of this.

It has frequently been stated that the foreign banks have rarely taken any steps to support the Chinese Government in its several

attempts at reform. The statement is true; but the reason is that there was never any co-ordinated scheme, and nothing that foreign trade could safely fall in with. Consequently it is no wonder that they did not want further complication by acceding to ill-judged and half-hearted attempts for the regulation of currency. For one thing, there was never any scheme which the native banks themselves accepted. As apart from the Government transactions, all the Chinese business of foreign banks is with native banks, it is not surprising that the former were chary of taking the initiative. Again, what is the use of minting coins, when the Government is not able to regulate their value or when the Government could not give an assurance that it had completed arrangements for giving coins for all the silver presented at the mint? The Government could only expect help or co-operation, when it adopts, and is able to enforce, a proper scheme of reform.

CHAPTER XV.

NATIVE BANKS AND NATIVE ORDERS

The reform of banking would thus he considerably simplified by the adoption of the proposals made in the previous chapters. By the adoption of the Shanghai tael and the minting of the unit and subsidiary coins, besides the issue of paper money with adequate reserves, a good deal of the uncertainties of business would gradually become things of the past. Just as the native banks in a district would co-operate for the success of the district banks, the latter would in the same manner co-operate with the native banks for the success of trade in general. The new arrangement would work in such a manner that, while the native bank would invest all its surplus with the district bank, the latter would supply capital to the former. Before the crisis of 1911, the native banks obtained working capital from the foreign banks, apart, of course, from their deposits; as the latter had no means of knowing or controlling the business of the native banks, they took a certain amount of risk in lending the money, and hence the "chop" loans were restricted in amount. If the district banks, who have every means of knowing the business and standing of the native banks, take upon themselves the function of supplying capital to the latter, they could not only regulate the supply better, but also give more freely than the foreign banks to responsible parties. The district banks in their turn could have recourse to short loans from the foreign banks, apart

from their deposits and capital; the foreign banks would also more readily give to a district bank, partly because there would be some Government control in it, and they could rest assured that capital would be supplied to the market in a suitable manner. The risk of the foreign banks would be infinitesimal because the credit of the Government would depend upon the return of the money thus lent out. I am speaking, of course, of the supply of capital to the market, which has nothing whatever to do with the ordinary business of the foreign, district, or native banks. As the district bank, and indirectly the Government, become responsible for all loans to the trade, it is to their interest to see that the native banks are properly organized. As the best of the native banks would be shareholders, along with the Government, in the district banks, it would be a matter of pride with them to organize their business properly, and to keep watch over each other; moreover, it would restrict the number of newcomers in the field, unless they were sound—because the existing and well-regulated banks would be jealous of the prerogative of being members of the district bank.

Future of the "Native Order."

The question of the native orders would also be regulated as a result of such an arrangement. Superficial observers have always made a mistake of lumping good and bad native banks together. When a reputable native bank gives an order, it is a point of honour to meet it, whether the person on whose behalf the order is given pays the amount or not. This class of banks always take particular

care whom they deal with, and in case of loss they simply charge it to the debit account. Even those banks that have argued that they could not meet the native order, because the person on whose behalf they issued it had not paid them yet, knew in their heart of hearts that they were doing something not permissible in their business code of ethics; they, however, evaded responsibility only when they were embarrassed. As the arrangement in connection with the district bank would do away with such institutions and would not permit of any such institutions being started, the trade would not be troubled by the interminable questions of unpaid native orders. In short, the district banks would become a sort of bankers' guild with real powers; at the same time the system would permit of efficient control by the Government, without such control being felt irksome or arbitrary.

In time the native banks may also be induced to adopt a system of cheques, so that they may follow more in the lines of Western banking and also take a less measure of responsibility. In any case, for several decades to come, it is useless to take steps to oust the native order from trade. So far as foreigners are concerned the cheques would have to be marked, in any case, "good for payment" by the banks. That, of course, means, for all practical purposes, the same as the present native order system.

With the passing of the less reputable native banks, and the district banks having the fullest control over paper money, there would be no longer any trouble in connection with indiscriminate issues of bank-notes. As a matter of fact, the trouble at present—and that of very limited scope—is in connection with the Government currency notes; even

these are being gradually withdrawn or disappearing. At present only the foreign banks and three or four Chinese banks issue bank-notes. When the paper issue of the district banks is in full swing, it would be extremely easy for China, first to stop the Bank of China and the Bank of Communications and other Chinese banks from issuing notes, and, next, inducing the foreign banks to stop their issues and accept the Chinese district bank-notes as the sole paper currency.

Reform of Native Banking.

The constitution and functions of native banking need to be modified considerably to suit modern conditions. When I stated that it was no use trying to do away with native orders I did not for a moment suggest that the methods of native banking did not need re-modelling. As the best way to effect reform is to facilitate the adoption of it by those whom it is intended to reform, no violent change would be either justifiable or successful. The effort should always be towards making the banks as little responsible for the transactions of individual dealers as possible. Under the system of native orders, the banks do not provide for their own safety in case of default by dealers. In a few cases, when some of the banks have been rash in issuing native orders and the dealers have not been of the right type, the native banks adopted subterfuges to get out of their obligations to foreign merchants. They contended that they gave the native orders on the promise of the dealers, to meet them or pay a portion of the sums due to them before the dates on which the foreigners were to be paid; and, that, as the dealers had not kept to their

promise, they found themselves unable to pay the amounts due on the native orders. According to the canons of modern business morality, it is certainly dishonest for a bank to agree to pay a certain amount on a certain date unconditionally, and then give excuse for non-payment or even ask for postponement of payment; and foreign criticism has been based on this principle, when it spoke about the dishonesty of Chinese banks. But in the light of the procedure of the Chinese such acts are not dishonest, although not businesslike. Usually, the native banks give orders on personal credit, or, on the promise of the dealers to meet the sums due on the orders before the due date—thus enabling the banks to meet the orders in the hands of the foreign merchants or foreign banks. It is tacitly understood among Chinese that the dealer would meet the orders or make arrangements for doing so, before they are presented by the foreigner. For a long while, the respectable native banks or Chinese dealers always took care to see there was no default on their part. When there was a large crop of questionable banks and unsound dealers, the default of the latter led to a corresponding fault of the former. The foreigners or foreign banks had the unconditional promise to pay; and it was no concern of theirs to go into the tacit agreement between the native bank and the native dealer. It is, therefore, easily seen that much of the foreign criticism of native banking has arisen through an incorrect understanding of the situation.

Reform of native banking should, therefore, grapple thoroughly with this question. The formation of the district banks, in the manner which I have suggested, would do away with a lot of unsound native banks. And the

passing of questionable native banks would, in its turn, put an end to the activities of unsound native dealers. The foreigners that took the orders of such banks as were not members of the respective district banks would do so at their own risk.

CHANGES IN "NATIVE ORDERS."

It would be a good opportunity for the reputable native banks, operating after the introduction of this reform, to reduce the extent of their responsibility with regard to native orders. There is no doubt that the best banks would take care not to incur undue risks, and to give orders only to dealers, who are thoroughly sound. But the principle of the bank itself doing business is not sound. Much of the financial difficulties that China has suffered from could either have been minimized or altogether done away with, but for this unsound principle. In the chapter on Banking in China I showed that the over-trading and the frequent debâcles in trade in this country have been brought about by the native order system permitting the banks directly or indirectly to do business on their own account. If some method is adopted by which the native order could partake of the nature of a document of guarantee, it would serve the purpose of security to foreigners who deliver the goods on receipt of the native order, and would also be a guarantee that the native banks do not do business on their own account. For all practical purposes, such a procedure would change the order into a cheque drawn by a merchant on a bank and marked "good for payment" by the bank. This need not always mean that the merchant has enough funds in the

bank to meet the cheque; but it would certainly mean that the bank is willing to give him credit—the security or any other transactions connected with the loan, if any, having nothing to do with the party receiving the cheque. Such an arrangement could easily be brought about by the simple mention of the name of the dealer, who presents the native order, in the order itself. In any case, it is not such a far reaching change; even to-day, the foreign merchants who deliver the goods on native orders look to payment not only to the bank issuing the order, but also to the dealer who presents it and takes delivery of the goods—as well as, of course, the compradore of the firm concerned. The mention of the names of the dealers in the orders would help the foreigners and foreign banks to understand the real credit of the dealers. Thus it may lead to an improvement in commerce, because the foreign merchants would then be able to grant more extended credit to dealers who are trusted extensively by the native banks. Much of the complaint in regard to the paucity of foreign trade in this country is based upon the lack of credit, and the impossibility of extending credit in this country, under present conditions. The best way of finding out the standing of a merchant is to know how well he is trusted by his own people and his bank. The arrangements that I propose would help towards this end.

Another advantage is the prevention of illicit transactions in native orders. At present, the native order contains a promise to pay a certain amount to the party that presents it on a certain date. Consequently, there is nothing to prevent the transfers of the orders to questionable parties, banks having no control as regards their ultimate use. If the

name of the dealer on whose behalf the order is given is mentioned, and the order is not transferable, it would still be negotiable, while there would be a check on the irregular use of it. The chances of loss or default, both to the foreign merchant and the Chinese bank, are thus minimized, and trade would be more healthy and attended with less risks.

CONSTITUTION OF NATIVE BANKS.

The constitution of Chinese banks is not likely to undergo any serious change for a long while to come; whatever change is desirable should come from within and should not be forced on them. The best banks remain proprietary concerns, generally with two or three partners at the most. So long as the idea of joint-stock business is not properly understood there is little hope of properly conducted joint-stock banks in this country. Two conditions are essential for the success of joint-stock business. The first is that the people should have sufficient surplus profit in their usual avocations of life, to risk a part of their savings to the exclusive care of others; secondly, there should be some sort of control by a public authority over a joint-stock institution, to prevent the management from unnecessarily hazarding the money which belongs to others. Underlying the two is the element of trust, of which, however, China has enough, looked at from the viewpoints of her social, economic and political conditions. The two conditions that I mentioned above are not generally prevalent in this country. Wages and profits are low, and saving is very difficult, except in very rare cases.

Although there is not such a wide gap between the rich and poor in this country as there is in India or the United States, there are very few men who could really be called rich, even in the sense in which wealth is computed in India or Japan. The majority of the people, who have even small amounts to dispose of, are not in a sufficiently strong position to risk it; and the few that are able to risk it are already in the trade, either as dealers or as bankers. The nature of the Government also is such as to afford no protection against malfeasance of funds by those to whom the public could entrust its money. It may be said, of course, that even in countries like England and the United States, the majority of the shares of the so-called public companies are held only by a few rich men; and that similar combinations could be brought about in China, to the benefit of the country. There is a modicum of truth in this; but no tangible result could be achieved, unless the Government is able to frame adequate laws for the control of banking and commerce, and has besides power to enforce them. A discussion on this subject is beyond the scope of this book; all that I can say at present is that the progress of joint-stock banking in China is not likely to be rapid, nor is it desirable that it should be quick.

Accountancy.

Much desirable change could be brought about in the accountancy of the native banks. The present practice of not having a pass-book, and the extraordinary trust between the banker and his client, are very creditable from a moral point of view. But it is not

business. As China is anxious to come into line with modern progress and development, it would be fully to her advantage, if the management of native banks took a leaf out of the methodical working of foreign banks—especially in accountancy. There is little purpose in going in detail into reforms in this direction, as they would have to be gradually worked out in actual practice by employing men, with an adequate knowledge of foreign accountancy in native banking institutions. After a little training, when a few of the banks adopt the new methods, it would be easy to make the practice general.

Capital and Branches.

As a rule, banks under Chinese management suffer from either extreme concentration of business, or wide diffusion of it. The older native banks as a rule have had rarely any branches outside of the places they operated in. The newer ones want to cover too wide a field. It is not very advantageous to a bank to have to deal through another bank when a business, within a small radius of twenty miles or so, has to be transacted. So long as there is sufficient capital, it is more economical for a bank to operate in places within a fairly reasonable distance from the head office. Lots of discounts, commissions and exchange of bullion or coin could be made cheaper or even obviated by such means. That means, of course, that the banks must have a fairly large capital in order to have adequate reserves at all the places, and adequate capital to conduct business and inspire confidence in the public. It is waste of energy as also money to have a bank with a small capital, and that only in one place.

On the other hand a tendency of the foreign-educated Chinese to imitate developments in foreign countries is even more harmful. To have a large number of branches at far distant places and to operate successfully and profitably, a bank needs an enormous amount of capital, which China is unable to concentrate. Moreover, even in European countries such developments are being looked upon with disfavour. Some of the big European banks have overseas branches, which follow, or are supposed to follow, trade. In any case, their capital is enormous, permitting them to venture on such pursuits. It would be no advantage to Chinese to encourage banks to cover too wide a field; for, even if they are successful, they would cut into the local banking business of each locality and thus generate hostility, which would prove of no good to the common weal.

Co-operative Banks.

A really sound banking development suited to the conditions prevailing in China is the co-operative movement. The co-operative movement first made its appearance in Germany, and, until recently, has remained a potent factor in the regulation of the life of the average individual and the farmer. The peculiar nature of the industrial system in England, and the large number of provincial banks and branches of the metropolitan banks, have obviated the necessity of co-operative banks in that country. In India, several banks of this nature are being started with the help of the Government. The advantages of this kind of banks are that it enables the man with a small capital to invest profitably without any risk, as also that it helps the

farmer who has generally no security, in the proper sense of the word, to borrow small sums at reasonable rates of interest. Co-operative banks are specially suited for this country, where the farmers are generally impecunious and are usually imposed upon by the middlemen who buy their produce, in order to sell eventually for export. The savings of a good year are usually wiped off by a single bad harvest, the condition of the farmer as a rule being extremely pitiful. Co-operative banks are especially suitable for this class of people; and when once the farmer knows that a bad harvest does not mean absolute ruin, he would have an incentive to increase the harvest and thus help to advance the export trade. The lines on which such banks should be organized would vary with the difference in local conditions. A thorough scheme for the organization of co-operative banks in the different parts of this country would involve too much detail, and is beyond the scope of this book.

CHAPTER XVI.

CONCLUSION

In the preceding chapters I have detailed the broad principles on which the reform of currency and banking in China should be undertaken. As far as possible, I have refrained from going deeply into the technical or mechanical details. That the importance of understanding the principles on which reform should be carried out has too often been ignored and that too much space and attention have been given to merely secondary details, in the several plans proposed till now, is too well known. I elected to follow a contrary plan. With most proposals, it had become a practice to make categorical affirmations; only Dr. Vissering has meagrely attempted to give some reasons for his affirmations, as also to point out briefly the developments in other countries. But even his proposals are vitiated by the fact of the a priori assumptions on his part that gold should be the standard of this country, in any case, and that a central bank is essential. No doubt he makes some attempt at a justification of his assumptions. But it would have been far more convincing had he attempted to investigate, before arriving at his conclusions. Once his assumptions are conceded, the working out of his plan is really praiseworthy, and evidence of the fact that he is a practical banker of repute. The same fault is inherent in the proposal of Professor Jenks, who also starts with assumption of the necessity of gold as a standard; Professor Jenks' proposals,

however, were never seriously considered, for he had neither sufficient practical experience of banking nor a proper understanding of the history of currency and banking in China. Of all the Chinese proposals, Chang Chih-tung's was the only one which had a commonsense justification, for, although ignorant of the science of banking and of the history of currency, no one knew better the position and the needs of his country than Chang. But all schemes were too much engrossed merely on the size, weight and fineness of coins. Not one of these proposals mentioned, or ever took into consideration, the necessity of continuity in the economic life of the people, or the co-operation or consent of the people for the successful carrying out of reform. It is a truism that even the most autocratic of governments cannot enforce a reform vitally connected with the social and economic life of the people, without at least a partial consent of the latter. Edicts galore have been issued commanding the people to do all sorts of things, as for instance, when the Government in China tried to impose currency reform; and there has been practically no change as a result. Too violent a change in any direction is not conducive to economic or national welfare; and this point again has been ignored by all the previous proposals for reform. Above all, the worst kind of reform, especially for China, is one that goes against the traditions of the people and would have to be enforced; such reformation is neither practicable nor possible.

I have endeavoured to avoid these pitfalls in my proposals. I do not presume that my plan is ideal, or, could not be improved upon. I have carefully refrained from going

into mechanical or technical details. Nor have I made any essential proposals with regard to the far distant future. Things are still in an unsettled condition in this country, and he would be a bold prophet who could predict an economic and political development, say, after the next twenty-five years. It may be, as Viceroy Chang hoped, or as has taken place in India recently, that the balance of trade in China becomes altogether too favourable to her, and that she has to receive instead of to pay out. It may be that an unexampled wave of industrialism sweeps over the country and changes the old course of the imports. It is not at all improbable that changes might take place that might facilitate the adoption of a gold standard. One thing, however is certain, i.e., that for the next one or two decades no change that takes place can make its effects felt, seriously enough to change the present economic situation.

My proposals are intended to suit the present situation, and the probable developments in the near future. One can hardly dispute the fact that the first essential of reform is the unification of the local currencies. Again, it can hardly be disputed that until this unification takes place there should be no disturbance in the shape of the introduction of a gold standard. It is also generally known that the average population in China is exceedingly poor and hardly sees even subsidiary silver coins; that, year after year, the Chinese continue to be unable to pay in produce fully for their purchases of manufactured goods; that under present conditions the national debt weighs as a heavy burden; that if the silver standard is adopted the old traditions should be conformed to, and that

there could be no better unit than the Shanghai tael, with the cash as the thousandth part of it; that it would be easier to introduce it, if the existing economic institutions like the native banks are induced to co-operate with the Government; that it would be suicidical to take steps with a view to get rid of the foreigners or to try to do away with the influence of foreign banks, which have too strong a grip on the economic life of the country.

There is a general misconception that the heralding of currency reform should necessarily be preceded by a big foreign loan. Nothing is farther from the truth. There is no doubt that the Government should first mint a fairly large number of the standard units and put them into circulation. But as silver will be tendered to them for coinage as the reform proceeds—the essential condition of the programme being that the Government undertakes to give coins for whatever amounts of silver is tendered at the mints—there would be little need to buy and ship to China large amounts of silver. At the outset, however, some buying is necessary. As the reform of banking would proceed side by side with the introduction of the new coinage, the district banks controlling, with the Government, the amounts of both notes and coin issues, the regulation of currency in the country would proceed as smoothly as possible. Later on, of course, when the Government takes upon itself the regulation of foreign exchange, a foreign loan might be necessary in order to establish a gold reserve abroad—although the profits from subsidiary coinage and the ease of circulation of notes might permit of a portion of the silver reserves being held in gold. For the moment, however, the Government might begin with

the introduction of the new standard and coinage, as well as the formation of district banks; the money necessary for this reform could hardly exceed £2,000,000; and considering the success of the recent internal loan it would indeed be surprising if the Government is not able to raise this money within the country itself.

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